PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

First Sitting

Tuesday 25 October 2022

(Morning)

CONTENTS

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not later than

Saturday 29 October 2022

The Committee consisted of the following Members:

Chairs: † Mr Laurence Robertson, Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Doyle-Price, Jackie *(Minister of State, Department for Business, Energy and Industrial Strategy)*
† Hodge, Dame Margaret *(Barking)* (Lab)
† Huddleston, Nigel *(Lord Commissioner of His Majesty's Treasury)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, *Committee Clerk*

† attended the Committee

Witnesses

Nick Van Benschoten, Director, International Illicit Finance, UK Finance

Gurpreet Manku, Deputy Director General and Director of Policy, British Private Equity and Venture Capital Association (BVCA)

Nigel Kirby, Head of the Financial Intelligence Unit (FIU), Lloyds Banking Group

Andy Gould, Detective Chief Superintendent and NPCC National Cyber Crime Programme Lead & Interpol Global Cybercrime Expert, National Police Chiefs' Council

Arianna Trozze, PhD student, UCL researching detection and prosecution of cryptocurrency crime

Jonathan Hall KC, Independent Reviewer of Terrorism Legislation

Public Bill Committee

Tuesday 25 October 2022

(Morning)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

The Chair: Good morning, everyone. We are sitting in public and our proceedings are being broadcast. I have a couple of preliminary announcements. *Hansard* colleagues will be grateful if Members could email their speaking notes to hansardnotes@parliament.uk and I remind everyone—including myself—to turn mobile phones to silent.

We will first consider the programme motion on the amendment paper, and then a motion to enable the reporting of written evidence for publication and the motion to allow us to deliberate in private—which will take only a minute or so—before the oral evidence session. I hope to take those motions formally.

Ordered,

That—

1. the Committee shall (in addition to its first meeting at 9.25 am on Tuesday 25 October) meet—

(a) at 2.00 pm on Tuesday 25 October;

(b) at 11.30 am and 2.00 pm on Thursday 27 October;

(c) at 9.25 am and 2.00 pm on Tuesday 1 November;

(d) at 11.30 am and 2.00 pm on Thursday 3 November;

(e) at 9.25 am and 2.00 pm on Tuesday 8 November;

(f) at 9.25 am and 2.00 pm on Tuesday 15 November;

(g) at 11.30 am and 2.00 pm on Thursday 17 November;

(h) at 9.25 am and 2.00 pm on Tuesday 22 November;

(i) at 11.30 am and 2.00 pm on Thursday 24 November;

2. the Committee shall hear oral evidence in accordance with the following Table:

TABLE

Date	Time	Witness
Tuesday 25 October	Until no later than 10.10 am	UK Finance; British Private Equity & Venture Capital Association
Tuesday 25 October	Until no later than 10.30 am	Lloyds Bank
Tuesday 25 October	Until no later than 11.05 am	The National Police Chiefs Council; Arianna Trozze
Tuesday 25 October	Until no later than 11.25 am	Jonathan Hall KC, Independent Reviewer of Terrorism Legislation
Tuesday 25 October	Until no later than 2.30 pm	Companies House; National Economic Crime Centre (National Crime Agency)
Tuesday 25 October	Until no later than 3.00 pm	City of London Police; Serious Fraud Office; The National Police Chiefs Council
Tuesday 25 October	Until no later than 3.45 pm	Spotlight on Corruption; Global Coalition to Fight Financial Crime; UK Anti-Corruption Coalition
Tuesday 25 October	Until no later than 4.15 pm	Oliver Bullough; Bill Browder
Tuesday 25 October	Until no later than 4.45 pm	Professor John Heathershaw, University of Exeter; Chatham House
Thursday 27 October	Until no later than 12.00 noon	Centre for Financial Crime and Security Studies at RUSI; Transparency International
Thursday 27 October	Until no later than 12.30 pm	OpenCorporates; Elspeth Berry, Nottingham Law School
Thursday 27 October	Until no later than 1.00 pm	Graham Barrow
Thursday 27 October	Until no later than 2.20 pm	Institute of Chartered Accountants in England and Wales
Thursday 27 October	Until no later than 2.50 pm	The Chartered Governance Institute UK & Ireland; City of London Law Society
Thursday 27 October	Until no later than 3.10 pm	Catherine Belton
Thursday 27 October	Until no later than 3.30 pm	Professor Jason Sharman, University of Cambridge

3. proceedings on consideration of the Bill in Committee shall be taken in the following order: Clauses 1 to 48; Schedule 1; Clauses 49 and 50; Schedule 2; Clauses 51 to 90; Schedule 3; Clauses 91 to 100; Schedule 4; Clauses 101 to 134; Schedule 5; Clauses 135 to 141; Schedule 6; Clause 142; Schedule 7; Clauses 143 to 153; Schedule 8; Clauses 154 to 162; new Clauses; new Schedules; remaining proceedings on the Bill;

4. the proceedings shall (so far as not previously concluded) be brought to a conclusion at 5.00 pm on Tuesday 29 November.—*(Jackie Doyle-Price.)*

The Chair: The Committee will proceed to line-by-line consideration of the Bill on Tuesday 1 November at 9.25 am.

Resolved,

That, subject to the discretion of the Chair, any written evidence received by the Committee shall be reported to the House for publication.—*(Jackie Doyle-Price.)*

The Chair: Copies of written evidence that the Committee receives will be made available in the Committee Room and will be circulated to Members by email.

Resolved,

That, at this and any subsequent meeting at which oral evidence is to be heard, the Committee shall sit in private until the witnesses are admitted.—*(Jackie Doyle-Price.)*

9.27 am

The Committee deliberated in private.

Examination of Witnesses

Nick Van Benschoten and Gurpreet Manku gave evidence.

9.30 am

The Chair: We are now sitting in public. Good morning to our first witnesses. I am going to crack on straightaway, because the timetabling is tight this morning, but you are very welcome. Thank you for coming. I remind everyone we are now being broadcast. Do any Members need to make a declaration of interest? No. Witnesses, will you briefly introduce yourselves, please?

Nick Van Benschoten: My name is Nick Van Benschoten. I work at UK Finance, which is the voice of the UK's banking and finance industry. I work in our economic crime policy unit.

Gurpreet Manku: I am Gurpreet Manku. I am the BVCA deputy director-general and director of policy. The BVCA is the representative body for private equity and venture capital in the UK. We look after the smallest venture capital firms investing in start-ups all the way through to growth capital and private equity firms offering across the UK and worldwide.

The Chair: Thank you. You are welcome. Given the time constraints, I will ask Members for short, snappy questions, so short, snappy answers will be very much appreciated. I start with the Opposition spokesman.

Q1 Seema Malhotra (Feltham and Heston) (Lab/Co-op): I will put one brief question to each of the witnesses, as I know colleagues have other questions.

First, thank you for giving evidence. Nick, I am conscious of your perspective for the whole of the financial services sector and I want to ask a question specifically about data and information sharing: is enough happening in the Bill to deal with what has been described to me as the chilling factor of sharing information? What might come back in the consequences of promoting sharing?

Ms Manku, you gave evidence in which you described the "unintended consequences" of requiring limited partnerships to have a registered office. I am not sure that we would necessarily agree with that, so I am interested in your argument.

Nick Van Benschoten: We welcome the provisions in the Bill for private sector information sharing. We are very glad to see that they apply across the AML regulated sector—not just banking, but payments, crypto, e-money and so on—which allows us to follow the money and the data as criminals move across sectors to obscure their tracks. That is very welcome.

We also welcome the protection from breach of confidence. That can be in common law and, typically, in terms and conditions. It is important to be able to encourage people to do the right thing without the fear that they might be subject to litigation. However, we note that the Bill falls short in the way in which we can share information with the National Crime Agency, which is a disapplication of all civil litigation. We would like to explore whether we could go further in the Bill, but those provisions are very welcome.

I will not say too much. An expert colleagues from one of our member banks is speaking to you later, but I stress the fact that we want to encourage the use of information sharing as much as possible. It is not just where customers are exited, but where a restriction is placed on them, such as additional monitoring or thresholds—there are a lot of ways in which the banks put each other on notice. We want to encourage that use as much as possible in true cases of economic crime.

Gurpreet Manku: We welcome the provisions in the Bill to ensure that limited partnerships are not abused by criminals—I want to make that clear. On the point about having a registered office, we agree that there needs to be a service address in the UK for the delivery of documents and for the registrar to contact the organisation, but our concern is actually in reference to the legal meaning of "registered office" in the Companies Act 2006 when it comes to standard companies. We know that the term means something else in that context, so it is actually quite a knotty legal point rather than an objection to the principle of having a link to the UK.

It is just about ensuring that any existing arrangements that have been set up for legal and regulatory purposes for international funds structures remain intact. We will need to work through the process of what this means in practice. We were speaking to BEIS officials as soon as yesterday to talk through what it means in practice. This is more of an implementation point, and we have suggested edits that will come through to officials.

The Chair: Would you like to follow up, Seema?

Seema Malhotra: Quite a lot of people want to ask questions, so I will make further remarks later.

The Chair: Dame Margaret?

Q2 Dame Margaret Hodge (Barking) (Lab): Gurpreet, your written evidence is very negative. At one point, it states:

> "We do not think these proposed changes support the Bill's central aim of reducing the use of limited partnerships for money-laundering, since criminal users of limited partnerships will simply ignore them."

That suggests to me that we are not going far enough. We are aiming to catch the people who are guilty of economic crime. Attached to that, somehow I cannot see any investor wanting anything other than to know that they are putting their money into a kosher investment. Even if you are just a pension fund putting your money into a scheme, it does not seem a bad idea to check that the person behind it is legitimate and not a drug or people smuggler.

Gurpreet Manku: Absolutely. We agree with you that it is not in our interests to have our limited partnership fund structure abused by criminals for all those reasons. We believe that the introduction of annual confirmation statements, the requirement to have authorised corporate service providers register limited partnerships and the power for HMRC to obtain accounts will deter criminals and prevent them from using the vehicle—we hope that they have stopped using it now given that these reforms are finally going through Parliament.

On how those points link to the evidence you quoted specifically, which was actually about some niche requirements on passive investors in a limited partnership fund, a worry there is that those investors might be deterred from using the UK limited partnership structure

because they feel that their liabilities are being increased, that they are being asked to do the job of management and that criminal sanctions are attached to that. That part of our evidence applied not to the Bill as a whole but to those specific areas.

Q3 Alison Thewliss (Glasgow Central) (SNP): I have some questions for UK Finance about verification at Companies House. What would it take to have confidence in that verification system? You said in written evidence that Companies House should avoid over-reliance on UK-registered trust and company service providers. Can you tell us a bit more about that and what you would like to see put in place?

Nick Van Benschoten: We think that the Bill's provisions for Companies House reform definitely point in the right direction. The question for us is, "Are they going far enough and will they be implemented fast enough?" Companies House abuse is, as I am sure you are all aware, a significant problem that we in the regulated sector have been trying to compensate for, but we cannot. We need Companies House to act as a proactive gatekeeper.

On the verification measures, one of the key points is that they fall short of minimum industry standards. Verification of identity is necessary but not sufficient. A key thing we have noted is that the Bill does not provide for order-making powers to allow Companies House to verify the status of directors or beneficial owners, and for that sort of requirement on company information agents and so on. That seems an odd gap. We understand that it may be a matter of phasing or resourcing, which can be dealt with in the implementation, but not if we do not have the order-making powers in the bill.

I have spent 12 years arguing for Companies House reform in my various roles. I do not have another 12 years in me, to be frank. We need to make sure that the Bill gives the powers so that the debate can be had during implementation and, if necessary, a phased or risk-based approach. What I mean is that there is a real risk of nominee directors and abuse thereof. Companies House needs to be able to verify that and therefore bring other things within its realm of power, querying and amending the register.

The how is maybe another question for more detail, but a risk-based, reasonable approach is also minimum industry standards. We have not yet seen it, but I note that the international body FATF—the Financial Action Task Force—agreed last Friday that it was going to consult on best practice guidance on implementing new standards for company registers. These are the same reforms that the Government pushed for as part of their G7 presidency. It has been part of the change: the US is setting up a register; Switzerland is moving. The UK cannot fall behind these new standards, so it is important that the Committee takes cognisance of that.

Trust or company service providers is one of those cases where we know that there is an issue; the banking sector and other industry partners in the joint money laundering intelligence taskforce and another four along with the National Crime Agency did a study of the risks of abuse in the UK trust or company service provider sector. We found shortfalls. There was a remediation exercise agreed. I understand that the remediation exercise is still ongoing. It is one of those sectors where there are concerns. We are doing other work that I am not at liberty to discuss, but it is about that sector.

That means that Companies House needs to be careful and cautious. There need to be strict legal undertakings with proper penalties, not just that they have met the standard of verification but that they have done everything they should be doing as a regulated sector. There needs to be access to the evidence of these checks, and that evidence needs to be something that, on a risk basis if necessary, can be queried—not just the information in the register but the actual checks undergoing. There needs to be the ability for Companies House to take sample checks and do also risk-based reviews. That may be something we can come to later on in terms of the querying power. I am sorry for a long answer, but it is an important point.

Q4 Alison Thewliss: Thanks for that, it is really useful. Anti-money laundering responsibility has pushed over on to some of these trust or company service providers, which could be quite a loophole in terms of what you are saying about checks and verification. Would it be useful for Companies House to have that responsibility itself for things registered directly with it?

Nick Van Benschoten: I do not have a view on that. I know that the Treasury will be consulting on reforming the AML supervisory regime. That is something we have been pushing for for quite a while. I know that Jersey, for example, has a very different model where it has most of the regulator sector under one bailiwick, and that includes company formation. That may be something that the Committee looks at in future, but it is not the UK model at the moment.

Our priority would be, rather than look at the cost-benefit narrative and machinery of government change, the co-ordination point. There need to be powers not just to request information but to get information from other supervisors. There needs to be the ability to pass information around the ecosystem, including the National Crime Agency and regulated sector people sharing intelligence. There are some provisions in the Bill at the moment where we think they could go further on that matter, but the key thing is that Companies House needs to be a data hub. On whether it has the responsibility or others, we have not taken a view on that yet, I am afraid.

Q5 Alison Thewliss: That is useful. Incorporation fees are ridiculously low at £12. The Treasury Committee recommended £100. Do you have a view on that?

Nick Van Benschoten: I do not think they are unprecedentedly low. From a very quick survey, we found that Benin and Turkmenistan also have a low figure. I am not sure that is the company the UK wants to keep. There is a question about international competitiveness. It is important to note that in other EU countries with major financial centres it is in the £50 to £100 range. That does not seem an unreasonable amount for us.

Perhaps more importantly, we think Companies House needs to get resourced properly. You have to will the means, not just the ends. It is very important that Companies House fees are set at a reasonable level that would not deter an entrepreneur but would disrupt some of the bulk abuse we have seen, in which criminals set up hundreds and hundreds of shell companies. That is definitely a typology that we have seen.

Once there is enough money coming through main registration, there is then the question of whether Companies House will be granted any investment money out of the economic crime levy that is coming in next year. It is important that the levy is spent on things that actually improve the system, and that we do not just cross-subsidise, and that some of the opportunities also have a benefit for the economy—maybe for streamlining the onboarding of small companies, or for facilitating other access to regulated services.

Obviously, there is the question of what the Government will spend the levy on. We welcome the money that they have spent so far. There is an interesting proposal—by, I think, one of the Committee members' all-party parliamentary groups—that the Government should match-fund the economic crime levy. Obviously, we in the regulator sector would love that. It is something for the Government to consider.

Q6 The Minister of State, Department for Business, Energy and Industrial Strategy (Jackie Doyle-Price): I want to come back to the question that Dame Margaret Hodge asked you, Gurpreet. I hear your point that some of the obligations may deter private equity investment, but through the legislation, we are making the positive statement that we are determined to improve standards of regulation, with a view to tackling crime, and are saying that this country will be safe place in which to invest. To what extent will the Bill be a deterrent? Do you have any evidence or have you made any calcuations on that? If so, which other centres do you expect will benefit from our introducing this system of regulation?

Gurpreet Manku: To clarify, I think this is a really important Bill. We have been saying for a very long time that the provisions need to be implemented quickly. The issues that we have raised are really on points of detail. Raising an international private equity or venture capital fund is quite a complex process. We hope that the swift introduction of the provisions will deter criminals from using the vehicles that we are talking about. When the requirement was introduced for Scottish limited partnerships to go on the people with significant control register, it led to a dramatic drop-off in the use of such partnerships for nefarious purposes. We were not aware that English limited partnerships were being used in that way instead, and we were surprised that they were, because English limited partnerships do not have a legal personality, and so cannot hold assets and should not be able to set up a bank account; certainly, they cannot in this country. We were therefore surprised by the scale of abuse there.

The Government are sending a really strong signal by introducing these provisions, particularly the requirement to have an authorised corporate service provider submit documention and the measures around annual confirmation statements. That should deter criminals. Our version of the limited partnership fund structure has been emulated across the world, so there is a lot of competition, in the sense that international fund groups could set up a vehicle in the UK, the EU or the US. Our wish is for them to be here, because that drives other economic activity.

We have a huge domestic venture capital and growth capital funds industry that invests in small businesses around the country. Two thirds of our investment is outside London; 90% of investment goes to small and medium-sized enterprises. Our managers are small firms; they need a domestic vehicle that works and is trusted by international investors, including those from the US who invest heavily in our members. These vehicles are used by private equity and venture capital funds. They are also used by infrastructure, pension schemes and fund-to-fund investors. Notably, they are also used by the British Business Bank through its equity programmes. It is the largest venture capital and growth equity investor in the UK. It has a really important role in catalysing innovation and crowding in additional institutional investors. I am passionate about the need for a robust UK vehicle, and it has been really disappointing to see the abuse first in Scotland and then in England in recent years.

English limited partnerships and Scottish limited partnerships are popular because they are here. The UK law courts attract institutional investors, as does the fact that we have a large professional services community here. Because we have funds here, we also have the administration here, which means that we have good-quality jobs around the country; some of our members have hubs in Belfast and Southampton. I am passionate about ensuring that this vehicle works, and the rules that are being introduced will deter criminals; they will improve the robustness of the vehicle.

Our points are really points of detail, just to ensure that the limited liability status of investors is protected and that we can implement these reforms in a swift and easy manner.

Q7 Jackie Doyle-Price: That is very helpful, but can I turn the question on its head? To what extent do you think these changes could make this country more attractive, given that we are making a very clear statement about the standards that we expect in these vehicles?

Gurpreet Manku: I think it will make a very good statement, and it will attract international investment. There is a huge level of interest in the UK because we have had some brilliant growth stories in our businesses, particularly in deep tech in life sciences and biotech, especially coming out of the pandemic. There is a lot of interest in investments, and the Bill will send a signal that these investors should be using UK fund vehicles and not those based outside the country.

Q8 Liam Byrne (Birmingham, Hodge Hill) (Lab): Nick, can I check two things that you said, which I think reveal some significant flaws in the Bill? First, I think you said that the verification regime proposed for Companies House is weaker than that for the regulated anti-money laundering sector. Is that the case?

Nick Van Benschoten: That is the case, and perhaps more, in a way, than you might expect. We are not saying that Companies House should be regulated for anti-money laundering, but it does not have the provisions to verify the status of directors or beneficial owners. That is the gap to the standards. I should stress that the industry standards allow reasonable measures in how you verify status, because it is a challenge, but those reasonable measures are a matter of how, not whether.

Q9 Liam Byrne: Right, so we have a risk of a two-tier verification regime: one operated by Companies House and one gold-standard regime operated by the regulated AML sector.

The second thing I think you said is that the verification regime proposed in the Bill runs a risk of failing to establish those in actual economic control of a company. Is that true?

Nick Van Benschoten: There is always the risk, yes, but some of the shortfalls in the Bill can be addressed, and we think they should be, so that we can address the issues that you mention. In specific terms, some of the abuses are going to be abuses that the UK has suffered in the past; others will be abuses that we have seen happening overseas. The key thing is that the Government need to take a risk-based approach to measuring those. At the moment, the Bill does not allow Companies House to pick up some of those measures, including if we identify them in the future and want to remedy the regime.

Q10 Liam Byrne: So you would say to Members of Parliament who are worried about bad people transferring control of an economic asset to proxies that, at the moment, we do not have enough safeguards in the Bill.

Nick Van Benschoten: I think they could be improved, yes.

Q11 Stephen Kinnock (Aberavon) (Lab): A couple of quick questions from me. First, on resourcing, the Bill puts a number of additional tasks, requirements and responsibilities on Companies House. How would you estimate the gap between where Companies House is now and where it would need to be if it were to properly implement and execute the Bill? Secondly, we have seen that a number of other jurisdictions—the Netherlands and Singapore in particular—have moved further and faster than the UK on data sharing. Do you think the Bill will bring us up to the gold standard for data sharing?

Nick Van Benschoten: Are you addressing the question to me?

Stephen Kinnock: To both of you, if you do not mind. It would be good to hear from both of you on both questions.

Nick Van Benschoten: My view is that, in terms of resourcing, there is a lot of new technology. Companies House is quite lucky that it can leapfrog using best practice. We have had a number of meetings with it. I think you may be hearing evidence from Graham Barrow later; we had a roundtable with Graham Barrow, Companies House and some other providers to try to explore this issue. Companies House is quite lucky in that it does not need to be a manual exercise: the goal is to get very much a minority manual review by humans, with the majority being technology and machine learning and so on.

That said, we also did a webinar with a number of data providers, including well-known companies that are looking at the size of the challenge and the opportunities. There is a big difference between quick wins and longer-term investment. Companies House already has a risk engine; it has data analytics already. It is just that its enforcement people, working as hard as they can, have their hands tied behind their back. I think there will be a lot of policy development, and work to implement not just the technology but the way that it interacts with the regime that it wants to set up. It is a challenge, because the short term is a burning platform.

Known patterns of abuse are identified every day. Also, a number of companies may be about to walk off with a lot of stolen public money through bounce back loan scheme fraud, and that is an area where Companies House may or may not have powers. Whatever powers the Bill gives need to be operated at speed. Sorry, that was a roundabout way to get to your question. There are short-term things it can do now, and there is a long-term thing; but it must make sure that it is dealing with the urgent as well as the transformative. We understand that the transformative exercise will take a long time, but there is also need for it to apply more tactical focus around the risks, especially in the short term. What was your second question? Sorry, I forgot it in my enthusiasm.

Stephen Kinnock: On data sharing.

Nick Van Benschoten: Each country has its own threats and problems. Singapore's COSMIC database addresses particular exposures and problems that it has with trade-based money laundering. The UK is in a different place in that market, but we have our own problems. In terms of data-sharing, one of the key things we would like is for Companies House to enable permissioned access to the regulated sector. We have a lot of problems that are not so much in high-end corporate, but in the retail customer base. We have money mules for fraud, we have a lot of spoof companies enabling purchase and investment scams. Trying to work out where exactly the needle is in the haystack is difficult when we do not all have access to the same data.

Companies House seems to be facing a binary choice: either it is public, or it is only for the public sector. There does not seem to be a middle ground that works on a need-to-know basis, where you have an obligation to apply money laundering checks and to have careful, need-to-know handling procedures and anti-tipping off and so on, and where that information is available for the purposes of safeguarding your customer and maintaining the integrity of the market. From a UK perspective, that is definitely something that we would support. We also think it might allow us to develop something equivalent for our own risks, as the Singaporeans and other countries have done.

Gurpreet Manku: We have focused on the limited partnerships provisions in the Bill, but in principle we would support Companies House being appropriately resourced to implement all these changes effectively. I have no objections to data-sharing with relevant authorities. Our investment community operates across the globe, so we are used to this type of activity in other jurisdictions.

The Chair: Perhaps two quick final questions. Alison, you wanted to come back.

Q12 Alison Thewliss: Thank you, Chair. You talked about the impact on SLPs from the changes in legislation. Have you looked at the issue of Irish limited partnerships? Bellingcat has found that over a thousand ILPs were created between the early 1900s and 2014, but 2,400 were set up from 2015 onwards. Are those who are looking to exploit the system just chasing round for the structures that they need?

Gurpreet Manku: We have not looked into that. I do know that Ireland has set up a new funds limited partnership, so that could be part of the reason for their

growth—but that was very recent, so I do not know why that has happened. Again, it is quite worrying if people are just moving around, exploiting different structures.

Q13 Dame Margaret Hodge: It is interesting that in this sitting, we have got rather contradictory evidence. On the one hand, you, Nick, are saying that we are not getting enough information on the basics, such as identity checks, and that we need information about more people; on the other, Gurpreet, you are saying that there is too much data, and it will damage business formation and prosperity. I wanted to give you the opportunity to think again, particularly you, Gurpreet. Have you got any figures? In your evidence, you say that you have to set up a tertiary body somehow. Is that just your guess? I think Alison Thewliss will agree that all our evidence is that the structures we are dicussing are among the most abused, and have facilitated more money laundering and economic crime than almost anything else. If we do not sort this out, it will just add to our problem, rather than enabling us to do what the Minister wants.

The Chair: May I ask for a brief answer?

Gurpreet Manku: We are commenting on different parts of the Bill. On the limited partnerships part, we think that a number of the new provisions being introduced will deal with the issues you have outlined. To reiterate, we are really unhappy and shocked to see the amount of abuse of this fund structure, because it has been in place for decades and is used for legitimate purposes on our side.

When you read the paper cold, you are right—it does look quite negative; we probably should have reinforced our support for the provisions that will work. Sometimes we have a tendency to go into the detail and start thinking about how things will be implemented in practice. We want to ensure that we use the tools and implement the most effective measures in the Bill. If there are other points that, on balance, would not necessarily help with the overall aim of the Bill, perhaps we should look at whether they need to be implemented.

Q14 The Chair: Nick, would you like to come in very briefly?

Nick Van Benschoten: I would just say that we support the application of the Companies House powers to all the entities registered at Companies House. Companies House needs risk-based querying powers and to be able to follow the data and the money. My earlier comments also apply to the point about limited partnerships and verification by trust company service providers; we need a much more cautious approach to the reliability of that service.

The Chair: I call Seema for what is probably the last question.

Q15 Seema Malhotra: I want to come back to where I started and to pick up on the evidence given about regulated and unregulated sectors. Obviously, there are issues in banks and the financial sector, but we have not talked much about cryptocurrency or other areas such as gambling, where there may be flows of illicit finance—cash and so on. Do you think that more needs to be done about unregulated sectors? Does the perimeter need to be extended? What relationships are there between economic crime in the financial sector and that in other sectors?

Nick Van Benschoten: From a financial sector point of view, it is important to look at this as an ecosystem; that is definitely how the criminals look at it. They look for weak points. Sometimes the problems are upstream of the financial sector, but it crystallises in our sector because that is when people realise that the money has gone out of their accounts.

We are very supportive of the fraud provisions in the Online Safety Bill—we think they are critical. We also think it critical that everyone be incentivised to play their part. That includes potential issues around the scope of the economic crime levy, which applied only to the AML regulated sector. The Bill levels up powers for the cryptoasset seizures and freezing orders. That is welcome; it simplifies things. We work with crypto sector associations. They are now trying to realise that they are part of a regulated sector, and they want to be part of the gatekeeper community.

On what the Bill does, it is important, as I mentioned, that there be information sharing across sectors. That is key, because then we can see whether we all have a different piece of the puzzle to put together. A systems approach is definitely needed; that is maybe the context for our point that Companies House should really be an enabling hub. That includes giving access to information that may not be on the public register.

Q16 Seema Malhotra: If this legislation is to be as effective as it needs to be, will there need to be dependencies on other legislation?

Nick Van Benschoten: That is a very good point, yes. There are also the information processing provisions on the identification, prevention and detection of economic crime in the Data Protection and Digital Information Bill, as well as the Online Safety Bill. Obviously, consultation is ongoing about a statutory APP or authorised push payments code. There may also be other vehicles in one of those bits of legislation, or this one, for other measures that we are currently discussing with the Government. I think the Minister made reference to our difficulty with having to process payments within a set period—there is a hard regulatory obligation, even when we have identified economic crime risks. We are still exploring whether that needs guidance or legislation. All these things need to come together if we are to design the right ecosystem. That then raises the question of who is leading the system. We are working on that with the Government.

The Chair: We have less than one minute. Ms Manku, do you want to make a few final comments?

Gurpreet Manku: We are glad that these provisions are being implemented. We have been working on them since 2018, and stand ready to work with officials to ensure that they are implemented effectively to meet the Bill's overall goals.

The Chair: That was good timing. I thank the witnesses for coming to see us and for their answers.

Examination of Witness

Nigel Kirby gave evidence.

10.5 am

The Chair: Thank you for joining us, Mr Kirby. We have until 10.35 am. Would you briefly introduce yourself, please?

Nigel Kirby: Good morning to the Chair and the Committee. I am currently the head of the group financial intelligence unit at Lloyds Banking Group. Across the industry, I am a representative on UK Finance's information and intelligence committee and, for full transparency, as part of that I was deputy director of the economic crime command of the National Crime Agency.

Q17 Seema Malhotra: It is good to have you here, Mr Kirby. Could you give us a little flavour of the kinds of trends and patterns of economic crime that you are seeing? How are criminals behaving? Are you seeing new trends domestically and internationally?

Nigel Kirby: Perhaps I can give a couple of the examples that we used when we were speaking with the Home Office for the formation of the Bill. In one case that involved money laundering, Lloyds identified seven customers that were receiving cash payments into their accounts. We linked those seven customers because they used the same fraudulent documentation—a gas bill—to set up their accounts. They had all been linked using fraudulent IDs. They were sending money to one individual in another bank.

At the moment, we act on such cases by meeting our statutory obligations—we exited those customers—but from the criminal's perspective, the second bank is not aware of the fact that they are receiving those funds, because we do not have the capability to share that information with them. Secondly, it is highly likely that those seven customers moved on to other banks and continued that activity because, again, at the moment we have no capability to share the information about our economic crime concerns in that space.

That is a fairly simple example, but to build on it, the same kinds of techniques were used to launder criminal funds in another case involving three companies that were banking with us. We recognised that they were receiving cash money from the same post office source. They were also receiving money from other companies in banks. That money all got consolidated and was sent out to, if you like, a fifth bank. I do not know what happened to it after that—we cannot see.

Q18 Seema Malhotra: A fifth bank domestically or internationally?

Nigel Kirby: It was, at that particular point, a UK domestic bank, yes. We have this sort of complexity of companies that are linked using different identities and are moving money around, layering it in the system, and sending it to other parts of the system. We are currently limited in what we are able to do.

On those three companies that we at Lloyds could see were receiving money from five other banks, at the time we could not inform those banks of our concerns or explore with them whether that money was legitimate—it is not all illegitimate; it could, of course be legitimate funding. Furthermore, when that money was consolidated and sent to another bank, we were unable to inform that bank.

Whatever the predicate crime—there are all sorts of predicate crimes—the layering is not that complex but it uses the banking system, across the banking system, to obfuscate and layer the funds, and then the criminals move on. The big challenge at the moment is that we can report those entities and companies, but they will just go and open up in another high street bank, and when they have exhausted the five major high street banks, they will go to the challenger banks, and when they have exhausted those, they will go to the fintechs. We are not aware of that in the way that other industries such as the motor industry might well be.

Q19 Seema Malhotra: That is extremely helpful. To follow up, will the measures in the Bill go far enough to enable the critical data sharing and the ability to inform other banks of what you think is important? In doing that and in going as far as you feel is needed, are appropriate safeguards in place for some things that may be legitimate finance and able to be explained by visitors or customers?

Nigel Kirby: To take the first question first—about whether the Bill goes far enough—I commend and compliment the Home Office. It worked with us on the Bill. This piece of legislation was, fortunately, done by the Home Office but using our case examples. The Home Office explored whether the Bill would work with the scenarios we gave them. That helped the information provisions to be pretty much in the right place. There is one key omission from our perspective; I can come back to that, if helpful. There is also one key dependency in another Bill—

Q20 Seema Malhotra: Sorry, what is the omission?

Nigel Kirby: The omission was referred to by Nick Van Benschoten: the civil liability protection. In the UK, we have real trust and confidence built up in voluntary information sharing with the National Crime Agency under section 7 of the Crime and Courts Act 2013. That has been the basis of our voluntary sharing, and we have built confidence in it over seven years.

The legislation has two limbs to civil liability protection—I will have to read my notes to make sure I do not make a mistake. The first limb is

"an obligation of confidence owed by the person making the disclosure"—

that limb is also included in this Bill. The second limb that we rely on is

"any other restriction on the disclosure of information (however imposed)"—

that limb is not included in the Bill.

Our position is that the Bill should align with the existing legislation that we are comfortable with. We would have more comfort in sharing and be more incentivised to share if we had the same protections as we have when we share with the National Crime Agency. The further observation is that there is not just one precedent; another piece of legislation, the Criminal Finances Act 2017—under section 11, I think—had sharing provisions with the purpose, in effect, of bringing better disclosures to the NCA. It had exactly the same two civil liability limbs, written in the same way. We believe that the second limb would be hugely helpful in doing things.

You might want to come back, but the other dependency that is key for us is that the Bill is drafted as an interlink with the GDPR, as you well know. That is wise, and one of the protections—that it has that link with the GDPR—but because the Bill has that interlink, the provisions in the GDPR are really important. I am aware that there is a draft Bill that has not yet been laid before Parliament

and, again, we—my colleagues in UK Finance—have worked on that Bill. Absolutely key for us in the draft Bill is a legitimate interest for sharing, because that Bill sets out legitimate interests.

At the moment, the GDPR cites only fraud as a legitimate interest, and no other crimes. To be able to make the measure in this Bill work, we need the revised GDPR to have the "prevention, investigation" and "detection" of crime—what the GDPR says at the moment—to be for all crime as a key part, so we can make the interlink. Otherwise, we are restricted only to fraud, but do not include wider economic crime.

Q21 Alison Thewliss: That is really interesting. I want to pick up a little on what you said earlier about receiving banks and where fraud has been against some of your customers. The Treasury Committee, in our report into economic crime, discussed fraud on online platforms, and the level of it. I understand from speaking to some of your colleagues in the past that that has been increasing. If someone tries to buy something on Facebook but is defrauded, the bank of that person will refund them. There is no obligation on the platform to take any action, and the receiving bank of the person who has done the fraud will take no action either. Could more be done in the Bill to break those types of transactions, with fraud being perpetrated on online platforms? What is the wider impact on the banking system?

Nigel Kirby: Your question is specifically about fraud and what we can do in that space. I suggest that tackling fraud is a shared responsibility. When you look at a typical fraud, you have the payment platform, as you mention; you have a sending bank and a receiving bank, and you have the victim. To tackle it, we need to look at the whole ecosystem, as Nick said, and have an approach that works. I am not convinced that there are things that one can put into the Bill for that—it is the wider point of the whole ecosystem coming together for any fraud strategy moving forward, how we tackle that and how we incentivise the right behaviours for tackling fraud in future.

Q22 Alison Thewliss: Would a wider "failure to prevent economic crime" obligation be useful in that regard?

Nigel Kirby: When looking at enacting new legislation, I would go back to the purpose. Putting my NCA hat on, rather than from a Lloyds perspective, I was involved in two pieces of quite significant legislative change: the introduction of asset forfeiture orders in the Global Finance Act, and the change in the sanctions penalty from two years to seven years. That was done very much on an operational need basis. As an organisation, we were able to put out the operational perspective of the gap—the fact that we could not use certain powers because, in the sanctions case, of the length of the sentence. There was a big gap in the ability to seize assets from a civil regime.

In whatever we look at, it is important that we understand that gap from an operational perspective. It is clear and compelling that by having new legislation, that gap gets filled. The other point is that there is the resource and the ability to use the legislation when it comes forward.

Q23 Alison Thewliss: Finally, do you have any comments on the changes being made to the suspicious activity report regime in the Bill?

Nigel Kirby: I would leave those to UK Finance; it is not my area of expertise. Our nominated office in Lloyds feeds into UK Finance so we get the whole industry.

Q24 Jackie Doyle-Price: I want to come back to the issue of GDPR, if I may. The whole ethos sitting behind the GDPR legislation is to defend the subject that the information is about. As you just highlighted, that feels really incompatible with having information sharing for the purposes of combating crime. I just want a better feel from you of how much of a barrier that will be. Is it a barrier or is it tying our hands behind our back to use the issues in the Bill? How much more do we have to challenge the ethos behind GDPR for us to build a system that is fit for purpose?

Nigel Kirby: I can link this to your question on safeguards. Coming from a law enforcement background, I believe that safeguards for members of the public are really important in this space, and I am used to following those. GDPR does not stop us from doing some things. It provides a set of safeguards for what we do.

When you look at what the Bill does on safeguards—I am trying to answer both questions—it makes it very clear that we share this information when certain conditions apply, such as exit or restriction, or we need the relevant actions, which would be the prevention and detection investigations for economic crime. Those safeguards are built into the Economic Crime and Corporate Transparency Bill.

In GDPR you already have safeguards in place. The first safeguard is: do we have a legitimate interest to share? That is precisely my point, Minister, about our needing to have legitimate interests to share—prevent all crime, not just fraud. Then you have a necessity limb to this. Is what we want to share targeted? Is it proportionate? Is there a less intrusive way? From a law enforcement perspective, we look at whether our actions are proportionate and collateral intrusion. There is a balancing act sitting there as a third limb, on ensuring that the legitimate interest of the public is not unduly overridden. I actually support the fact that there are safeguards in GDPR; I think that is the right thing to have. I support the fact that we need to meet those to be able to share information, but in doing so in that particular space, we need to be able to have sufficient breadth to be able to share across all economic crime and not just fraud.

Q25 Jackie Doyle-Price: That is very helpful. It feels to me that we have got to a position with GDPR where the practical implementation has gone beyond that safeguarding, actually, but we could tackle this by, perhaps, a much fuller statement and guidance about how we expect people to respect the protections but also the obligations that exist in terms of tackling crime.

Nigel Kirby: I think it would be very helpful to have, on the obligations, clear guidance from somewhere like the Information Commissioner's Office—it has got good guidance, to be fair—as we move through this. Should the Bill be enacted and become legislation, guidance across the industry and from the relevant Government sectors or law enforcement sectors on how we do this and come together in the same way as we came together through the Bill, would be important and give clarity, because, as I am sure you are aware, Minister, there are

different interpretations of things, different views and different risk appetites. That is normal in business. The views, legal interpretations and risk appetites will always be different, but where there is guidance to help us through this, with a positive intent from Parliament, that is always really helpful.

Q26 Dame Margaret Hodge: That has been really helpful on the information. I think that a slight amendment to what we are doing would help the GDPR issue.

I want to take you back—I could not quite hear what you said to Alison—to the SARs regime, if I may. It may not be your area of expertise, but it is a very important instrument for informing the enforcement agencies of where there may be a problem. The system is clearly broken—hundreds of thousands of SARs are landing on the desks of enforcement agencies. And we had the idea that they could be put into categories—risk categorised. I wonder whether you are able to comment on that at all, because if currently there is just a tick box—you send off your SARs and you have done it—too often the banks then carry on doing business with a suspicious person. Is there room in the Bill for doing something more on that regime, to ensure that the enforcement agencies are more effective in rooting out economic crime?

Nigel Kirby: I think the SARs regime and the Proceeds of Crime Act 2002 itself actually need—well, not necessarily to be turned upside down, but to be looked at as a whole. I think an individual focus just on some aspect of SARs probably would not change the system in any particular—

Q27 Dame Margaret Hodge: So you think SARs are okay.

Nigel Kirby: Just to be very clear, I am here from Lloyds Banking Group; I will answer this question from my former role at the NCA—from that perspective. SARs do have huge value in what they do; the idea that they just go to a box and are not used is not entirely correct. One of the things the UK has done with SARs, which is world leading and others are quite jealous of, is that they are accessible to a wide range of investigators. It is not about following each one up. There is a database. A wide range of financial investigators can see them and they are held there for six years, as legislation allows. So there is a huge use there.

Also, Dame Margaret, we need to think about this. There is the SARs regime and there is the SARs reform work that is being led; investment is going to be put forward there. I would suggest that we need to see what differences the SARs reform makes first.

Q28 Dame Margaret Hodge: Okay, I hear that. I have one final thing to ask. Looking at your background, I see that you have spent a lot of time in the public enforcement realm. From that experience, and looking at the Bill today, do you think that there are any glaring gaps that we ought to be reflecting on?

Nigel Kirby: Reflecting back and particularly focusing on this area, as I am sure you do, we need to build and are building on the public-private relationships we have had. One Member mentioned Singapore and Holland, but actually, from the perspective of a private-public partnership, how we operate together and particularly the joint money laundering intelligence taskforce, we are seen as world-leading in that space. There is something there about building on that as we move forward and bringing in other sectors, which I know the NCA does. In this particular space, the enablers, as they are sometimes referred to—the telcos, the ISPs, the social media companies—being brought into that public-private partnership and building on what we have is important.

The Bill brings forward private-private relationships, and I think that is important. Hitherto, the information-sharing provisions have all relied on the NCA gateways. There is a throttle there, in terms of capacity. Widening that out so that private-private can share and be the frontline, in many ways, to help to prevent and detect is an important way forward.

Broadening out, there are a couple of elements in the legislation that we need to look at. For us, one is about friction in the system. We have a very quick payment system in the UK; when you pay, you press the button and off it goes. That is something we have got used to as a public and as a banking industry. It is unhelpful when you are looking to put legitimate targeted friction into a system to temporarily stop what I will call economic crime, because it is not just fraud, although it includes that.

Q29 Dame Margaret Hodge: So crypto is a bad thing, is it? It goes very quick. There is no friction.

Nigel Kirby: Respectfully, I think that is a different question.

You asked me to put my other hat on, Dame Margaret. Looking at the scale of fraud—you know, you have got it here; you are familiar with it—and the number of victims and the cost to the UK, it is time for the UK and those with the power to do so to either think about fraud as a strategic policing requirement or, going even further, ask whether it is now a national security threat. I do not just mean with that label—that is really important. You can put a label on these things, but if it could be classed as a national security threat and have the available resources brought together from our national agencies and national policing, that might have a greater impact for the public.

Q30 Stephen Kinnock: Thank you, Mr Kirby. You have used terms such as "world-leading" and spoken quite positively about what is happening in the UK. I have to say, as an interested observer, it does not look like that to me. London has generally become known as the laundromat for dirty money, particularly from Russian oligarchs and others. Money laundering prosecutions have dropped by 35% over the past five years in the UK. In March 2022, the budget of the NCA's international corruption unit was cut by 13.5% to £4.3 million, leaving corruption investigators massively outgunned by the oligarchs.

I have two questions. First, I am trying to understand why you have this sense of optimism, because it looks like a pretty dire situation to me. Our enforcement agencies have been starved of the resources and capabilities they need. Secondly, you have had a long career in the NCA and in enforcement; I am sure you are still in touch with some of your former colleagues. If you had to define the resources they need, what extra would they need to be able to turn this situation around? It would be great to hear from you on that.

Nigel Kirby: For clarity, I used "world-leading" specifically in reference to private-public partnerships and what we are doing for voluntary information sharing. Look at the joint money laundering intelligence taskforce and the facts in that space: it has supported 950 investigations that have led directly to 280 arrests, with £86 million secured. There are some hard figures around here that are different. When I was in law enforcement, we had law enforcement from other countries coming to ask how we did it, including Singapore and Holland. I am in the private sector now, and we have private sector colleagues coming to ask us how do we do that part. That is just a part of the ecosystem that is important—

Stephen Kinnock: Point taken.

Nigel Kirby: If I misled you or you took it that way, that was not intended.

On your question about if I were still there, I am sure that Graeme Biggar, the DG of NCA, will have plans for what that could look like. When I was there, we certainly put forward evidence-based propositions such as, "If there were x amount of funding, these are the extra capabilities we could bring and this is the impact we believe it could have." I am afraid my contacts are not close enough now to know the detail of that.

Q31 Stephen Kinnock: Very diplomatically put. Would you agree that the Bill will not be worth the paper it is written on if the enforcement agencies are not properly resourced to do the job?

Nigel Kirby: I fully agree that we need enforcement to be properly resourced with the right capabilities to be able to deliver what it is asked to do.

Q32 Liam Byrne: Just to crystallise this, in your first answer, you described quite a simple layering exercise of money moving through five different banks, and you said that was a difficult problem to stop. Does this Bill help us stop that problem that you just described?

Nigel Kirby: Well, it does not stop that in the UK because our financial system launderers are in there, but what we can do is to prevent them from continuing to abuse the financial system. Take the example I gave with the five other banks—four were sending money—that were involved with Lloyds. The Bill will allow us to have a conversation with the four banks that were sending money into our companies, and to say "In relation to our responsibility for understanding due diligence, money laundering and so on, can we share information on those four companies so we can better understand those flows from those companies?" That is important, because some of them may have been legitimate and some may have been illegitimate, but that will help us to define the good from the bad in that particular space. It will also act as an alert trigger for those other four banks to have a look if they have not done so already.

An intelligence-led approach would say, "Lloyds has a concern about these four companies" and it could look further into the matter and do an investigation into its own relationship with its customer. The other element on all that money that came through to us—it was in the millions—that went out to a fifth bank, which I will call bank F, is that we could alert that bank about our money laundering concerns, provided we had exited those three companies, which we did. If that bank had not already picked it up with its transaction monitoring, it would have an intelligence-led trigger to be able to do its own investigations, and to stop that and report it to the authorities.

The final and important part of this is the indirect part—we call it the utility. The ability to better share this information for others is important because. If all those companies were exited out of the financial system by the five banks involved, it is highly likely that they would go on and open up accounts with other banks. This Bill gives us the opportunity to be alerted to that and to take the appropriate action and due diligence that we need.

Q33 Liam Byrne: The second problem that is often described by banks to me is that they have to spread their compliance resource very thinly across a large customer base, rather than focusing it on a smaller group where they suspect there is more harm at work. Is that a scenario you recognise, and does this Bill help you focus compliance resource on the potential high-harm customers who we should be worried about?

Nigel Kirby: It is an important point in terms of focusing on risk. We are having a conversation at the moment in industry with law enforcement and a regulator about how we can define where the high priorities are and how we can focus our resources on them, while meeting regulatory requirements and the law enforcement perspective. It would be helpful—we refer to it as dial up, down down—in terms of resource to be able to move to a space where our voluntary discretionary resource could be targeted in exactly the way you suggest, because there is a lot of voluntary discretionary resource in this space.

Q34 Liam Byrne: But this Bill does not help you in that squaring of the circle.

Nigel Kirby: Not in the sense of prioritising what the highest threats are and where we should be. That is to the best of my knowledge. Just for clarity, I am not familiar with every aspect of the Bill.

The Chair: We have literally one minute.

Q35 Seema Malhotra: I have a question about automatic strike-off procedures for companies that may have bank accounts with you and where that company may have been involved in economic crime and then is automatically struck off. Do you have concerns about that process and whether there should be reform?

Nigel Kirby: I think, with respect, that "automatic strike-off procedures" are your words, not mine. I used the fact of us taking an approach and considering whether to exit—that might be a similar thing—a customer. We take this really seriously. We look to understand whether we have economic crime concerns about those consumers. There is a range of things that we can do in that space. The ultimate one is about exit. We would exit that relationship, which is contractual, so we are able to do that. But there are other things that we do, and one is actually to speak to the customer and understand that transaction. We see some unusual transactions, but we have a conversation.

Seema Malhotra: It is more about Companies House automatic strike-off—but they might be your customers.

The Chair: Order. I am terribly sorry; we do have to leave it there. I must cut it off on the dot. Mr Kirby, thank you very much for joining us.

Examination of Witnesses

Andy Gould and Arianna Trozze gave evidence.

10.36 am

The Chair: We will kick off. You are very welcome, witnesses. Thank you for joining us. Would you be so kind as to briefly introduce yourselves and your positions?

Arianna Trozze: Hello everyone. My name is Arianna Trozze, and I am a PhD researcher at University College London. I look at detecting and prosecuting financial crime involving cryptoassets, and for the past year I have also been advising the Home Office on a part-time basis on technical aspects involving cryptoassets in relation to this Bill.

Andy Gould: Morning. My name is Andrew Gould. I am a detective chief superintendent with the City of London police. My job is to run the cyber-crime programme for the National Police Chiefs' Council, which is focused on building capacity and capability across policing.

The Chair: Thank you. We will go straight into questioning.

Q36 Stephen Kinnock: Thank you very much. First of all, I have a question for you, Mr Gould. The national fraud policing strategy states that the police's response to fraud is delivered by local forces, but capability across those forces varies widely. It mentions the regional organised crime units being very limited in their capacity. Do you think that that situation has improved since 2019, when the report was published, and could you say a bit about what extra resources the ROCUs need?

Andy Gould: Sure. Fraud is not really my area of responsibility—I am focused very much on computer misuse act offending—but yes. I know there has been significant additional resource put into the ROCUs for fraud in the last couple of years. Is there enough capacity to meet the demand? Probably not. What policing probably needs to do is take a slightly different approach. Rather than trying to investigate those volume crime offences, it should focus more on those organised crime groups or individuals that are doing the most harm. That is the kind of pivot that policing is trying to make, in terms of being more proactive. I know Commander Adams is giving evidence this afternoon, and he will be able to tell you more about that.

Q37 Stephen Kinnock: Thank you. I have a question on cryptoassets. Do you think, broadly speaking, that the enforcement agencies have the expertise that they need to deal with the economic crime dimensions of the cryptoassets issue?

Andy Gould: Yes, I do. I think we have got the capability, but what we lack is capacity. The capability we have got today does not necessarily mean we will be able to maintain that capability tomorrow. We have invested, through the national cyber-security strategy and the programme through Government. We have got about an extra £100 million that has been invested over the last four years or so, building capability across policing. Some of that money we have effectively taken into crypto, so that cyber money is being used to cross-subsidise wider policing. We have created what we describe as cryptocurrency tactical advisers across the whole of policing. There are now officers in every force and every regional organised crime unit who are trained and equipped to do that. We have nationally procured the investigative tools to enable them to progress the investigations, and we have a national storage platform to store that once we have seized it.

We are in a position where we have actually seized hundreds of millions of pounds worth of cryptocurrency assets within the last year or so. The challenge we have is that it is getting harder and harder to do. The assets themselves are becoming more diverse and more technically complex, so our officers are in a bit of an arms race trying to keep up.

On the tools that we use, you might have one supplier that is brilliant on Bitcoin but not so good on another asset class, so we need more than one investigative tool to be able to investigate effectively. That is very expensive. One of the providers is currently quoting $60,000 to $80,000 per licence. That is unachievable, or unsustainable, for policing. We need to procure nationally for everybody, so we have an 80% discount on our current investigative tool, taking that approach.

The big worry for me at the moment is not just the technology changes and whether we will be able to maintain that level of resourcing and expand the capacity across policing; we have created a real staff retention problem. Because crypto is an emerging market, some of the best expertise and understanding of crypto in the UK sits within policing. We have been investigating cryptocurrency since 2015 or 2016. One of my sergeants has just been offered 200 grand to go to the private sector. We cannot compete with that. That is probably the biggest risk that we face within this area at the moment.

Q38 Stephen Kinnock: Thank you. Ms Trozze, I know that you are a specialist on crypto, so would you like to add anything to that?

Arianna Trozze: I would echo Andy's point about the difficulty of tracing certain cryptoassets and investigating certain chains and things like that, and how this is evolving rapidly in competition with the existing providers and the blockchain services themselves. It gets more and more difficult to investigate as time goes on. You need more and more capacity building and investigative tools. At the same time, the crypto companies and the blockchain companies are seeking to develop their technologies in ways that will evade that detection, so it is a constant race between the two sides to be able to effectively investigate and prosecute these crimes.

Q39 Alison Thewliss: Leading on from that question, we are putting a lot of provisions in the legislation. Is the legislation sufficient to keep pace with those technological changes?

Arianna Trozze: One of the key ways that legislation can future-proof itself in the face of this rapidly developing technology is via the definitions. I think that the definition

of cryptoasset in the Economic Crime and Corporate Transparency Bill is sufficient to do that. Probably most importantly, the inclusion of cryptographically secured contractual rights means that the definition will cover smart contracts, which is really the technology that underpins all the major advances in the space of, for example, decentralised finance and non-fungible tokens that have taken place, and that we expect to continue to develop in the coming years. Furthermore, the ability to amend those definitions via secondary legislation is clearly a positive, because in the event that something slips through the cracks and develops in a way that we cannot anticipate, it will make it more efficient to change them.

Q40 Alison Thewliss: Are the measures in the Bill sufficient to protect consumers from being victims of economic crime via crypto?

Arianna Trozze: Because they are very clear that they include cryptoassets, it really makes the rules clear for everyone in the industry. Consumers then know as well what rights they have. My view is that it obviously cannot do everything, but the fact that there are provisions for victim compensation goes a long way to also protecting consumers. Obviously, it does not prevent the crimes from occurring, but it helps them to recover the losses.

Q41 Alison Thewliss: Briefly, how do you feel the measures in the Bill relate to the other measures around regulation in the Financial Services and Markets Bill? I am conscious that the two Bills are going at the same time.

Arianna Trozze: I cannot really speak to that. I am very sorry about that.

Andy Gould: I cannot either—sorry. I have not looked at that.

Alison Thewliss: That is okay. No problem.

Q42 Jackie Doyle-Price: When we talk about things like cryptoassets, it is difficult for lay people like me—I am sure I am not alone—to envisage what exactly we are talking about. I recognise some of the operational sensitivities under which you are working, but would it be possible for you to give us an illustration of how cryptoassets have been used to disguise this activity?

Andy Gould: Probably the most obvious area would be around ransomware, which is if you are an organisation and you get hacked and attacked and then lose access to all your files or systems, and then get a demand from a cyber-criminal saying, "Okay, if you want to get access back, you have to pay"—basically, an extortion demand. That extortion demand will virtually always be in cryptocurrency, because there is a view that that is harder to trace.

Depending on the kind of cryptocurrency, the traceability varies. Effectively, a lot of the technology that sits behind cryptocurrencies is based within what is described as the blockchain. Arianna is much better at explaining this than me, but the blockchain is effectively a public ledger, if we are talking about Bitcoin or something like that. We can see all the transactions. It is like your bank account or NatWest or any other bank doing its transactions in the public space—everybody can look at them. It is effectively decentralised and very public, so there are real benefits in that. The anonymity comes from not knowing who is sending what or who is who, in terms of the bank accounts—the wallet equivalent.

That provides opportunities to follow the money, but, although you might be able to see where the money goes, you will not necessarily know who has sent it or who has received it. There are other investigations you would need to do that. And there are tools—mixing services or exchanges—that will jumble it all up and then send it elsewhere, and you will not be able to see what has come in compared with what is going out. That is why criminals like to use it—because, as they see it, it covers their tracks effectively.

Arianna Trozze: One way to make it a bit clearer is to situate cryptocurrency money laundering in the traditional phases of money laundering. When we talk about money laundering, we tend to talk about three specific phases—placement, layering and integration. In the crypto space, placement may look like someone depositing their Government-issue currency into a cryptocurrency exchange, and exchanging it for cryptoassets, or potentially using what is called a fiat on-ramp to buy cryptoassets using their fiat currency. They may also use something like an over-the-counter broker, which may allow them to buy cryptoassets using cash.

Then, the layering process follows, which is kind of what Andy was talking about, in terms of trying to obfuscate the origin and trail of funds. There are a lot of different tactics that the criminals can use to do that. As Andy mentioned, they may use mixing services, to try to break the chain. They may create thousands of different cryptocurrency wallets and accounts and transfer the funds among them in order to make it more difficult to trace. They may exchange them for various different types of cryptoassets, including privacy coins, which we, again, have a lot of trouble chasing, although there have been advancements in that regard. Finally, they may move to completely different blockchains, using what are called blockchain bridges, and that further makes it more difficult to trace—as Andy mentioned before, different providers have different capabilities and different expertise in terms of which chains they specialise in and which assets they are able to trace. That is something else that they may do to hide that trail of funds.

Finally, we have the integration process, which is criminals using those now-cleaned funds for mainstream economic activity. We know that sometimes they may seek to keep those funds in cryptoassets in an attempt to further their gains, speculatively investing in the market; or they may, again, use one of these exchanges or what is called a fiat off-ramp to transfer their cryptoassets back into pounds or any other currency.

Q43 Jackie Doyle-Price: It is really the complexity that is the barrier, is it not? The actual use of cryptoassets of itself brings an additional complexity, so it is clearly an ideal tool for those who are up to no good.

Arianna Trozze: Yes, and as it is such a quickly developing technology, there are constantly new ways coming out for criminals to use the technology for various purposes. Again, it is a rush for law enforcement and investigative companies to try to keep up with this.

Andy Gould: To give you a sense of the scale of the challenge, there are thousands of different forms of cryptoassets or cryptocoins in existence. We have to

learn to use all the ones that the criminals are using. We can only do it with the private sector. There is no way we can invest in or have the skills in-house to be able to develop all of those tools for all of those different asset classes, so we work really closely with all the big private sector companies to build that capability. It is why we do big open national procurements—because that is the only way it is affordable.

Q44 Liam Byrne: Is cyber-crime and cryptocurrency-based crime growing quickly?

Andy Gould: It is really hard to say, because it is so hard to identify or report at scale. However, I would say yes. If you talked to all of the big cyber-incident companies and the threat intelligence companies about what we are seeing, in terms of reporting, then yes, everybody would say that it is rising. Certainly, the crime survey for England and Wales does.

Q45 Liam Byrne: What is the criminal structure in this market? Is it teenage hackers in their bedroom or sophisticated organised crime groups?

Andy Gould: It is both. There is a real mixture. You can have your sophisticated organised crime groups, with some of those having a bit of a crossover with hostile state actors, which makes that more complex to manage. You therefore have a lot of overseas threat at the higher end, but during the pandemic we also saw a shift of mainstream, traditional—if that is the right way of describing them—UK-based criminals moving into cyber-crime, because a lot of the tools are readily available on the internet and are quite easy to use.

Q46 Liam Byrne: You just said that some of those organised crime groups have connections to hostile states—presumably such as North Korea, Iran and Russia.

Andy Gould: Yes, that is right.

Q47 Liam Byrne: So is there now a blurring of a national security threat and economic crime?

Andy Gould: Yes, definitely.

Q48 Liam Byrne: And are we investing enough in tackling that kind of crime?

Andy Gould: I think that a lot more has been invested. I think—

Liam Byrne: That was not the question. Are we investing enough?

Andy Gould: Well, as a police officer, I will always say that you are never investing enough.

Q49 Dame Margaret Hodge: Lots of us are trying to get our brains around this. I had a session yesterday with a whole load of people in the crypto industry who tried to convince me that there is actually better transparency because it is open—you can go in and see it—and there ought to be a way in which, with the right algorithms, you could follow the money more easily than in other ways. Is that true? Were they conning me, or is that vaguely true?

Andy Gould: No, there is definitely an element of truth in that. If you have a public blockchain, you can see where it is moving, and that is very open—Bitcoin is the most obvious open public blockchain and the most popular crypto. However, that does not mean that you necessarily know who it is that starts and finishes. That is the issue, and with a lot of the different criminal services available, it is becoming harder and harder to manage. It is becoming more tricky. So, the answer to your question is probably yes and no.

Q50 Dame Margaret Hodge: We welcome the Minister's attempts to start bringing this into a regulatory framework. However, looking at the other aspects of money laundering and economic crime, the so-called enablers are often the bad guys. In this world, those who establish a new form for crypto are presumably the ones who, if they are not properly regulated and supervised, could create a system for facilitating economic crime, fraud and money laundering. I do not think that we have proposals in here, really, for the supervision and regulation, have we? Are those badly missing?

Andy Gould: The Financial Conduct Authority has taken on regulatory powers in this space. I am not an expert in that area, but that is looking pretty promising. A lot of UK-based entities that were offering those services are no longer able to do so, so there has definitely been a clean-up of the market in that space, which is positive.

The challenge is that international regulation, and a lot of the recent work we have seen in that space, has driven a lot of overseas exchanges and providers, which might have been operating in a bit of a grey space, shall we say, to suddenly look to become more legitimate and comply because they want to come into the mainstream financial system. I would use the analogy that the tide is going out on a lot of the more criminal providers. They are effectively being left as "clearly not engaging, clearly criminal", and a lot of those that may be operating in the grey space in international jurisdictions are becoming more and more legitimate as they clean up their acts.

Q51 Dame Margaret Hodge: This is really Liam's question, but, because it is digital, the answer must be global, must it not?

Andy Gould: Absolutely, yes.

Q52 Dame Margaret Hodge: And that is really hard.

Andy Gould: Yes.

Q53 Seema Malhotra: I want to follow up on what you were saying about how you can follow the flows, but you do not always know who is sending and who is receiving. I want to understand a bit more about crypto accounts. I understand that you do not need an account in order to make a transaction, but if you do have an account you can see who is making transactions. Is there more that can—or needs to—be done to say that everybody must have an account? Is that practical and how could it happen? Secondly, what is the current level of identification and verification checks when setting up a crypto account, and what level should there be?

Andy Gould: The average member of the public using cryptocurrency will probably be using an account through one of the legitimate exchanges. They will go through the whole "know your customer" process that they would go through for a bank. Regulation pretty much covers that; I think we are in a good place with it. It is

the criminal exchanges and criminal service providers that regulation would not affect. You would not be able to build an infrastructure that stops them being able to create their own wallets, as you could for those accounts with what are effectively crypto banks.

Arianna Trozze: There has been research that some of the KYC processes, especially in some of the higher-risk exchanges, are quite easy to fool with fake documents and other such things. There are companies serving UK customers that are still not registered with the FCA and do not meet its KYC or AML requirements, despite its best efforts. For example, none of the Bitcoin ATMs operating in the UK is registered with the FCA, even though they are supposed to be, and they tend to have quite lax KYC requirements. They may require you to put in a phone number. Some of them have more requirements, but whether it is a rigorous process remains in question.

Q54 Seema Malhotra: What more could be done about that?

Arianna Trozze: In my view, the only thing would be more enforcement efforts against non-compliant companies. I do not know how practical that is, or what kinds of resources there are to address the problem, but to me the only way forward is to make sure that those companies and operators know that it is not acceptable to be working and serving UK customers without a licence.

Q55 Seema Malhotra: What are the consequences for them if they do that?

Andy Gould: I think the FCA has prosecution powers and enforcement and regulatory options, but I could not say what it is doing about that.

Q56 Seema Malhotra: Do you know if there are cases where it has used those powers?

Andy Gould: I do not know. They only came in earlier this year, so I would be surprised if the FCA has got to the stage where it is able to exercise them in terms of investigation.

Q57 Jane Hunt (Loughborough) (Con): Mr Gould, to follow on from that important point, I understand that the Bill removes the need for powers of arrest before you can do search and seizure. Can you explain the impact of that? Will it be useful for reducing the number of victims once you have spotted an issue happening?

Andy Gould: Yes, definitely. That is a huge benefit of the Bill; it is one of the provisions that we have been asking for. Imagine a scenario where you execute a search warrant on criminal premises: you go in and you can see stolen property, but at the moment, if they are not there, they are not under arrest and there is no existing investigation. You then have no power to take that crypto under the Proceeds of Crime Act 2002. So yes, that is a big step forward for us.

Q58 Stephen Kinnock: Thank you for giving me another go. I have two quick questions. If you had a blank sheet of paper and you were able to amend the Bill in the cryptoassets space, what would be your No. 1 amendment to improve it? Secondly, Mr Gould, do you also look at counter-terrorism within your brief?

Andy Gould: No.

Q59 Stephen Kinnock: Okay. I was going to ask something about counter-terrorism, but I will not if that is not your area. So my only question is to both of you: if you had an opportunity to amend the Bill, what would you do?

Arianna Trozze: I need to think for a moment.

Andy Gould: We are generally very happy with the provisions of the Bill. One area that we might want to look at is storage of the assets. Imagine you have £100 million-worth of cryptocurrency. That is really expensive to store, and there is always a security risk around where it is stored. If we were able to turn that into cash straight away at the point we get the restraint from the magistrates court, and that that was a standard power, a lot of that cost and security concern would be taken away. That would be one area where we could improve.

There is an existing power under POCA, where you can go to the Crown court and make that application, but that can be contested by the defendant. There is a cost associated with that. If we had a standard power to do that, I think we would be a bit happier, but we are generally very happy with the provisions in the Bill.

Arianna Trozze: I would echo that I generally think the Bill goes far enough—as far as is technologically possible at this time. I do not think there is anything that I personally would amend at this time.

Q60 Stephen Kinnock: Apart from turning cryptoassets into cash in the way that you have described.

Arianna Trozze: I see both sides of that argument. Obviously, if assets are transferred into cash and then the original assets significantly gain value, and if the person with the assets were then found not to be a person of crime, the Government would be on the hook for the change in value of those assets. There are two sides to the argument but, as Andy mentioned, the storage is quite risky and very expensive. I ultimately agree, but I see both sides of the argument.

Q61 Alison Thewliss: As a brief follow-up, do you have any information on how much that cost is likely to be? That would be very useful to us. I appreciate you might not have that figure in front of you now, but it would be useful to have that detail.

Andy Gould: It is quite commercially sensitive, but it could be a large sum—we are talking hundreds of thousands of pounds.

The Chair: Okay, we have come to the end of this session. Thank you very much for joining us.

Examination of Witness

Jonathan Hall KC gave evidence.

11.1 am

Q62 The Chair: Mr Hall, thank you very much for joining us. Would you like to briefly introduce yourself, please?

Jonathan Hall: I am the independent reviewer of terrorism legislation. I also have a bit of a background in crypto from my practice as a barrister, which is why I

was interested in this whole area. I was asked by the Government to feed into some of the clauses as they went through, and I am here to talk about the crypto aspect.

The Chair: Thank you for joining us. We will go straight into questions.

Q63 Seema Malhotra: I will be brief in asking this question, and then I have to leave. Do you think the NCA has sufficient resources to make use of the new recovery powers in the Bill, and do those powers go far enough?

Jonathan Hall: I do not know about the resources of the NCA, but in terms of whether the powers go far enough, I think there are some areas where they perhaps go too far, or at least where I think, from a fundamental rights and individual rights perspective, some attention may need to be drawn. There is the simple question whether you should be able to seize cryptoassets on the basis of the fact that they might be used by terrorists. Of course you should. Then you have the complicated question of how you bring about a seizure regime where assets are not physical. It is one thing if you seize a jewel or some cash, but it is another thing if you are effectively seizing information. What you have here is a very lengthy set of provisions to allow you to do that.

Generally speaking, I think it works, but there are one or two areas I want to draw to your attention. The first, which I think is acceptable but worth thinking about, is that the power is a power to seize not just cryptoassets but crypto-related items. In practice, you are not seizing a thing; you are seizing a code and that can be written down on a bit of paper or on a computer. What these provisions do, unlike all the other seizure powers that say you can seize the jewel, the cash or the contents of a bank account, is that they allow the police to seize any item, which could be a computer, or a piece of paper. So, it is quite a wide seizure power. I think it is kept effectively within bounds, but it is something that is worth drawing attention to, which is different from other aspects of seizure in this field.

The next point is that you have to be able to convert crypto and there are several reasons for that; one is because the prices may go massively up or down. Individuals whose assets are the subject of seizures may never be prosecuted—and this is a civil remedy—and, in fact, no final application for forfeiture may ever be brought. That is particularly true in the context of terrorism, because often what counter-terrorism police will want to do is disrupt the transfer, but they will not necessarily want to go on and apply to forfeit. The figures from last year show that there is a disparity between the number of accounts that are frozen and the amount of money that is finally the subject of forfeiture.

The Government did listen to my views on this issue. It is important that the Bill has provisions such that both the police can apply to convert the cryptocurrency into, say, pounds sterling, and that it is also open to the individual from whom it is seized, who might say, "Look, I bought this crypto. It's gone massively up in value. You're never going to apply to forfeit this. I don't want to lose out on the rise of value." There is provision in the Bill for the individual to go to court and say, "I'm a person from whom the crypto has been seized. Please can you convert it?" That will be decided by the court, but it is good that that provision is in the Bill; I think it works.

Is this too boring and long? I mean, there is a third bit, which I think is the most difficult bit. It is the power of a magistrates court to require a UK-connected wallet provider to freeze the cryptoassets and, even more significantly, to require that the UK-connected crypto wallet provider should actually pay the money over to the court. It is slightly in the weeds, but what the Government have done—and I understand it—is to try to be quite novel. They are really trying to push the law here, because they realise that many of crypto wallet providers will not be based in the UK, but this comes with a consequence regarding how the Bill is currently worded. I will just give you the bit that I think may need a bit of attention; it is clause 10Z7B—

Q64 Dame Margaret Hodge: Can you give that again?

Jonathan Hall: Yes, I will. It is clause 10Z7B(7).

Q65 The Chair: Have we a page number?

Jonathan Hall: I am not sure I have got the same document; I have got the Public Bill Committee document for 30 September and it is on page 10.

Q66 The Chair: It might be on a different document. I think we might have to move on then.

Jonathan Hall: I will just flag it up to you. It defines a UK-connected cryptoasset service provider. It includes a provider

" which…is acting in the course of business carried on by it in the United Kingdom."

Well, that is completely fair enough; if they are carrying on business in the United Kingdom, they should be subject to court orders. However, it then has this provision:

"has terms and conditions with the persons to whom it provides services which provide for a legal dispute to be litigated in the courts of a part of the United Kingdom".

I will just put the flag up and then allow the Committee to move on. That is quite a wide extension of UK jurisdiction over companies that may be based abroad and potentially over victims who may have claims overseas.

The Chair: Thank you. I will bring the Minister in next, which may be helpful.

Q67 Jackie Doyle-Price: Thank you. Forgive me, but you are speaking very legally, which is obviously why you have been invited here. We want to try to make this live, and you obviously bring considerable counter-terrorism expertise. Can you give us some examples of how the Bill will enable law enforcement to go after and combat terrorism?

Jonathan Hall: Let us imagine that counter-terrorism police have intelligence that there is an Islamic State cell that has been fundraising in Birmingham, and they are going to try to transfer the funds that they have managed to raise to an active cell based in Syria. Their plan is to do that by using Bitcoin. Let us imagine counter-terrorism police had intelligence that that was about to happen. They could raid the premises where the UK-based cell was operating. They could seize a bit of paper on which the crucial key is written down, which would allow the

transfer of the funds to take place to Syria. They could then use that key to grab the cryptoassets—let us say it is £1 million-worth of assets that are about to be converted, or have been converted, into cryptocurrency—and transfer the cryptocurrency to a police-controlled wallet or to another provider who they trust.

That money, which would otherwise have gone out to Syria to buy guns and so on, will then be seized by the police. If the police have evidence to do so, they could in six or 12 months' or up to three years' time, go to a magistrates court and say, "We can prove that this cryptocurrency was going to be used for the purposes of terrorism" or "It was the resources of a proscribed organisation, Islamic State. Can you now please order that the money be seized and transferred to the Treasury?" Does that help?

Jackie Doyle-Price: Yes, not only is that a brilliant explanation that brings this to life, but it is a great plot for a film.

Jonathan Hall: It is real life. There was a man called Hisham Chaudhary who was convicted last year of doing more or less that.

Q68 Jackie Doyle-Price: Exactly, and this is what we are talking about. Do you think that what we have in the Bill will stand the test of time, given that ultimately this kind of criminal activity is always trying to get one step ahead of the law? Can we be confident that what we are enacting here will be future-proof?

Jonathan Hall: We can never be confident it is completely future-proof, but it is necessary and definitely a very strong step in the right direction. As I say, I have one reservation about overseas companies where I think it may go a bit too far. It may just be a question of deleting one part of the provision I read out to you. In general, it is a good step.

Jackie Doyle-Price: We will have a look at that. Thank you.

The Chair: I think the number of the page you are looking for is in the amendment document on page 47 and it is new schedule 1. I think that is what you were referring to, Mr Hall. I am going to move on anyway.

Q69 Alison Thewliss: This is obviously a fast moving area and a lot of expertise is required. Do the enforcement authorities have sufficient expertise to keep pace with this? We heard from a witness earlier that their experts are being snapped up by industry because they are able to offer more money. Does that make it difficult to then enforce the provisions in the Bill?

Jonathan Hall: In the counter-terrorism world, there is an open question about quite how much this blockchain technology will be used by terrorists. There is quite a lot of excitement about the possibility of its use, but the jury is slightly out about how much it is, in fact, being used. I cannot speculate why that would be. Counter-terrorism is a well-resourced part of police business, so I would expect that there would be specialists who would be willing to stay because they are quite highly motivated; outside counter-terrorism, I do not know. I was very struck by the point about the £200,000 transfer fee.

Alison Thewliss: Thank you. I will leave it at that.

Q70 Dame Margaret Hodge: I want to follow on from that, because I am taking it a bit wider than crypto in two areas. After the 7/7 horror, we put our all into counter-terrorism and we now have a strategy that is well resourced, and can respond to and has responded effectively to terrorism threats down the years. When I look at this, I feel that Ukraine ought to be our 7/7 moment in relation to dirty money. I wonder whether we are ambitious or comprehensive enough. I take the point about resources; there is no point doing anything if you do not have the resources. However, are we doing enough here to give you the confidence that we can really start turning around this big tanker?

Jonathan Hall: Do you mean the Russia-Ukraine aspect?

Dame Margaret Hodge: Ukraine gives one a sort of focus on the worst aspects of dirty money, but are we really being as comprehensive as you were when you did the counter-terrorism stuff there?

Jonathan Hall: The one thing that I think would make all the difference would be to resource Companies House. I follow Graham Barrow on Twitter—I think he is giving evidence—and occasionally I look at the overseas entities register, and, as he has pointed out, there are these anonymous chip shops in Barnsley, which have about 57 British Virgin Islands companies attached to them. It seems that that is the low-hanging fruit: having a well-resourced Companies House that can tackle the entries, verify them and prosecute them.

Q71 Dame Margaret Hodge: I will ask you just one more question, which is a little bit off piste. The Bill puts new duties on lawyers to ensure that they can be fined if they engage in work that facilitates crime, or they fail to prevent crime. I gather the Bar Council is a bit iffy about this; I wondered whether they thought it was interfering with access to justice. Where do you stand on that? Lawyers certainly come up constantly as facilitators, giving opinions that underwrite either unlawful behaviour in the tax field or illegal behaviour elsewhere. I do not know if you can help us on that—it is a bit off piste.

Jonathan Hall: The funny thing is that there is a principle in law that, if someone is giving advice to someone in order to commit a crime, legal professional privilege does not apply. It is quite hard to find examples of cases in which that doctrine has been applied, so I do not know whether it is about law enforcement having the confidence, when they have a lawyer who is deeply engaged in advising someone to break the law, to say, "We don't care that you are saying this is privilege because we are going to run the case and say it is for a criminal purpose". Beyond that, I do not know. I am a lawyer and I completely support maintaining access to justice—of course I do. But you are also completely right that lawyers and trust companies are at the heart of this issue, and I am afraid there are professional enablers.

Q72 Stephen Kinnock: This is the same question that I asked our previous witnesses: if you had the opportunity to amend the Bill, what would you do? You have flagged

[Stephen Kinnock]

up one area in which you are worried the Bill goes too far, so obviously we need to look at that, but my question is more about how you would make it go further to achieve the outcomes we are looking for in terms of the role that crypto plays, particularly in financing terrorism.

Jonathan Hall: I have not got an answer beyond the one I gave before, I am afraid. I am sorry; I have not thought of a positive thing. I would just remove that subsection (b) from the definition of UK-connected cryptoasset service provider.

Q73 Stephen Kinnock: I am not sure if you were in for the previous session, but our witnesses talked about the need to be able to transfer crypto into physical assets or cash. What are your thoughts on that and do you have a sense of what the cost would be? Obviously, the disincentive for doing that is how much it could cost the Government for being on the hook. If it is transferred it into cash, and if there has been a rise in the value of the cryptoasset, the Government are potentially on the hook if that person is found not guilty. Do you agree that that "on the hook" argument exists? If so, it becomes a numbers game, because the cost of storing the cryptoasset is high. What is the net benefit to the Government of either transferring it to a physical asset or continuing to fund the cost of keeping it as crypto?

Jonathan Hall: It is quite a bit step to convert it to fiat currency, or pounds, because you are then interfering with the bet that person has placed on the value of the currency going up. I do not know what the figure is in terms of storage. I am interested, too, in the question of potential police liability. I am thinking about the Sanctions and Anti-Money Laundering Act 2018. As you know, before the Government brought in the suite of changes that allowed urgent sanctions, they were very careful to narrow down the potential liability that the Government might have in relation to sanctions, if they were challenged. I have not given it attention, but maybe it is worth having a look at whether there are equivalent protections for the police. The seizures can be very high in this field—they can measure many millions—so the potential liability of the police could be quite high. We would not want the police to be too disincentivised by the risk that they would be on the hook for damages, if everything goes wrong.

In terms of the balance, it may be that ultimately one or other party—the person from whom the assets are seized, or the police—is going to suffer some sort of loss. The key thing is to make sure that people have access to the courts. The courts will have to generate their own sort of expertise and case law over when you should convert a currency. I can imagine that someone will come to the magistrates court saying, "My assets have been frozen. Now is the time for converting them from Bitcoin into Ethereum", and the court says, "What? How do I determine that?" There will need to be a body of expertise. This is a minor point, but it is something that I support: one of the intentions is to allow quite a wide range of law enforcement personnel to be responsible for the court proceedings, precisely so that you can develop a cadre of people who have got that sort of expertise.

Q74 Alison Thewliss: I want to ask about Scottish limited partnerships, particularly given their involvement in sanctions busting and various other things. Do you share my concern that they can exist in the Companies House register in a sort of zombie form and can be reanimated? Is there more that the Bill could do about that? If the use of SLPs is being tightened up, if you were looking to abuse corporate structures where would you go next?

Jonathan Hall: I do not want to say. The key thing is that I am not a Scottish lawyer, and I am not going to try and opine on whether there is a legitimate use of them. The key thing is basic enforcement. You made the point that there are zombie companies. Well, someone in Companies House needs to follow these things up. I am sure they will, but the resourcing of Companies House is where I would put my money.

Q75 Liam Byrne: We have just heard some very powerful evidence about the relationship between organised crime groups operating in this sphere of crime, and state threats. Have you any other observations about the relationship between economic crime and national security threats as we face them today? Is that a serious problem that we need to be worried about?

Jonathan Hall: It is a serious problem. I would say that the reason we have not faced the wave of mass casualty terrorist attacks in the UK, in contrast to America, is the lack of readily available firearms. That is the key thing. It is why the growth of the extreme right wing and all these ideologies that inspire mass killings, the obsession with Columbine and so on, have not resulted in mass shootings. From a national security perspective, the real concern is the alignment—if it happens—between terrorist organisations and those in organised crime, who do have the capacity to source firearms. That is a really important point.

The Chair: That brings us very nicely to the end.

11.24 am

Ordered, That further consideration be now adjourned. —*(Nigel Huddleston.)*

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Second Sitting

Tuesday 25 October 2022

(Afternoon)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 29 October 2022

The Committee consisted of the following Members:

Chairs: Mr Laurence Robertson, Hannah Bardell, Julie Elliott, † Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Doyle-Price, Jackie *(Thurrock)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Huddleston, Nigel *(Lord Commissioner of His Majesty's Treasury)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† attended the Committee

Witnesses

Martin Swain, Director of Strategy, Policy, External Communications and Legal, Companies House

Adrian Searle, Director, National Economic Crime Centre

Commander Nik Adams, Economic Crime Portfolio Lead, City of London Police

Simon Welch, National Co-ordinator for the Economic Crime Portfolio, National Police Chiefs Council

Michelle Crotty, Chief Capability Officer, Serious Fraud Office

Dr Susan Hawley, Executive Director, Spotlight on Corruption

John Cusack, Chair, Global Coalition to Fight Financial Crime

Thom Townsend, Executive Director, Open Ownership and member of the Anti-Corruption Coalition (UKACC)

Oliver Bullough, Journalist and author

Bill Browder, Journalist and author

Professor John Heathershaw, Professor of International Relations, University of Exeter

Thomas Mayne, Chatham House

Public Bill Committee

Tuesday 25 October 2022

(Afternoon)

[Sir Christopher Chope *in the Chair*]

Economic Crime and Corporate Transparency Bill

2 pm

The Committee deliberated in private.

Examination of Witnesses

Martin Swain and Adrian Searle gave evidence.

2.3 pm

The Chair: Our first witnesses, the fifth panel, are Martin Swain from Companies House and Adrian Searle from the National Economic Crime Centre.

The Minister for Security (Tom Tugendhat): May I just declare an interest, very briefly?

The Chair: Absolutely. We will all listen with bated breath to the Minister's declaration of interest.

Tom Tugendhat: I simply refer to my wider declaration in the Register of Members' Financial Interests.

The Chair: Thank you. Mr Swain, would you introduce yourself briefly for the record?

Martin Swain: Good afternoon. I am Martin Swain. I am one of the executive directors of Companies House, with responsibility for—

The Chair: You will have to speak up, because the acoustics in this room are very poor.

Martin Swain: Apologies. At Companies House, I have responsibility for policy, strategy and communications, and legal services.

The Chair: Thank you. Mr Searle?

Adrian Searle: Good afternoon. I am Adrian Searle. I am director of the National Economic Crime Centre. I am here with two hats on: as the director of the NECC, as it is called, and as a director within the National Crime Agency—so I can make comments about both the NECC and the NCA. If it helpful, I can explain a little bit about what the NECC is.

The Chair: No, I do not think so; we do not have time for that. I call Seema Malhotra to ask the first question.

Q76 Seema Malhotra (Feltham and Heston) (Lab/Co-op): I have two questions. The first is for Mr Swain. Thank you both for coming to give evidence today. The Treasury has allocated £63 million so far for the transformation of Companies House functions, but beyond that there is no clarity on the sustainable funding model for Companies House, with the extra work and demands that will be coming its way. With the increased responsibility that is going to be placed on Companies House, what do you think needs to be done? Is the £12 incorporation fee still an adequate amount for what Companies House will be doing?

My second question is to both of you. Do you believe the Bill should go further and reform the strike-off procedure for companies? There is a recognised issue where companies are building up debts, not filing a return and then being struck off as one of the routes through which money laundering may be taking place, with limited room for manoeuvre after that. Would there be any benefits to reforming that process? Is there any consideration, for example, of companies being placed in a compulsory liquidation procedure? I would be interested in your thoughts on that.

Martin Swain: As you say, we have £63 million through the spending review for transformation. We are two thirds of the way through our transformation programme at the moment. It is fair to say that we have been clear with the Department and Treasury that we are taking on significant new functions and responsibilities. Some of that will require more people and people with different skills from those that we have now. Companies House is a register of information, so a lot of our people do processing work. We will need to move those people off that. We will need to employ skills that we do not currently have, so we are actively talking to the Department and the Treasury about our funding model.

To your point on fees, yes, we could increase fees to pay for additional resources. I know there is some challenge around the fee being too low. Again, we have taken provision in the Bill to charge fees for different things that we currently cannot charge fees for. For example, we cannot currently recover costs for investigation and enforcement activity, as it is centrally funded. We are taking powers to do things differently. I do not think I am at a stage to be able to say we have a definitive figure that we have agreed with the Department or Treasury that would give us our funding model for the future.

The Chair: Mr Searle?

Adrian Searle: I think the question that was probably targeted towards me is not about the resources in Companies House, but the second, follow-up question relating to striking companies—

Seema Malhotra: It was about how to tackle economic crime and whether the reform of the strike-off process is important to that.

Adrian Searle: The strike-off process is not something I have a detailed understanding of. I suspect Martin might be better placed to answer that question.

Martin Swain: Again, it is something we are very aware of. Companies take advantage of the strike-off route to discharge themselves of debts and so on, and for other purposes. My sense is probably that the Bill as drafted gives us what we need. It is about how we take forward the policy in that area regarding where companies are moved to strike off. For example, we get lots of representation with regard to lots of companies being

registered at one address—a registered office being used and abused. The route for that would be to default them to our address at Companies House, for not having a registered office address that is valid. The next step on that would be strike-off, but clearly if we do that we may be having an adverse impact on the system and giving companies a route to use it for criminal activity or to fold without paying their debts. We are very aware of the issue.

Q77 The Minister for Industry (Jackie Doyle-Price): What we have here are the twin objectives of making it easier to do business and to tackle economic crime. I am really interested to hear from both of you whether we have the balance right in the Bill as it stands.

Adrian Searle: I think we have. There is, as you say, a real challenge to get the balance right between a prosperity and a security agenda. As we know, the Companies House reform elements of the Bill are a long time coming, so there has been lots of analysis and consideration of how you get the balance right. What I know from a law enforcement investigative perspective is that the changes being introduced under the Bill will certainly make the job of law enforcement far more straightforward in terms of our ability to investigate criminals and corrupt elites who are exploiting the complexity of the corporate structures to hide their assets, launder their wealth, and so on. I am confident that it gives Companies House and, by extension, the investigative agencies the powers we need. The indications that I have from exchanges with Martin and others in the industry are that the changes do not go so far that they inhibit transparent business practices in a way that undermines our economy. It feels to me that the balance is right.

Martin Swain: It is a very good point. It is a challenge for us as an organisation, because we have very clear direction from our Ministers that we should not create a burden for business, or make it difficult for companies to incorporate or for people to invest in the UK. The concept of balance is always there for us. We will bring in things such as ID verification, but we need to make that really efficient, and make it easy for people to understand the process, so that we do not create a burden for the vast majority of companies on our register that are legitimate businesses. That is quite a tension sometimes, because there is a significant spotlight on Companies House to become more than the passive register that we are at the moment, and to become—I hear this term—an "active gatekeeper" of the register. There is a potential that we move too far into that territory and make it harder for the vast majority of companies to deal with us.

I mentioned our transformation programme. There are two elements to our transformation. One is the legislative reform and all that is involved with that. The second part is digitising our services. That is what we have been focusing on in the last few years: making our systems really quick and easy to use, and to drive data, rather than receiving information on paper. You cannot work effectively with law enforcement from paper transactions; you have to have data.

Q78 Jackie Doyle-Price: That feels like a slight change in culture within Companies House, which has been very much a function for business. We probably need to communicate to the business community that part of their obligation to make the world a safer place is that they need to accept their changed relationship with Companies House.

Martin Swain: It is a huge culture change for us, not least in becoming more of a proactive agency. I hear it said that Companies House will be key to the economic crime ecosystem; what I say to people is that we will also be part of the business growth ecosystem. It is important that we have that dual role.

Adrian Searle: I think there is real value for businesses in being able to trust the other businesses they are dealing with. There is a strong argument that the transparency agenda supports the business agenda.

Jackie Doyle-Price: I agree. Thank you.

Q79 Alison Thewliss (Glasgow Central) (SNP): How exactly will the verification scheme that you propose work?

Martin Swain: At the moment we are in the design phase for verification. I should say first of all that we will not do the ID verification ourselves; we will outsource that.

Q80 Alison Thewliss: To who?

Martin Swain: At the moment we are looking at two options. We are working closely with Government Digital Service and others on the potential for the Government solution. We have been clear with them about our requirements with them. We are separately looking at market options, whereby we would go to the private sector and outsource via that route, where a number of providers can do identity checks.

Q81 Alison Thewliss: Okay. How are you weighing up the balance of those two?

Martin Swain: It goes back to some of the things that I said about ease of doing business. There are two key parts of our specification: whether we can make it really efficient, and fast and easy for people to do, and whether it is at an equivalent standard to the industry standard. We are very clear that we are operating along the same lines as others in the system.

Q82 Alison Thewliss: We heard from UK Finance earlier that currently the proposals are below industry standard.

Martin Swain: I heard that, and I am surprised that they are saying that. I will have a conversation with them about where that has come from.

Q83 Alison Thewliss: Okay. Will there be verification of the links with shareholders and owners as well, and the control that they have?

Martin Swain: People with significant control will be subject to verification—beneficial owners, but not shareholders who have less than 25%.

Q84 Alison Thewliss: Why?

Martin Swain: It was a decision by the Department and Ministers, post consultation. They consulted on the whole area of shareholders, and the information that they hold, and verification. The decision was that they would not be subject to verification.

Q85 James Daly (Bury North) (Con): The first two words of the Bill's title are "Economic Crime". I think you said, Mr Swain, that you are a passive registry organisation, so how does the Bill help you to turn from a passive registry into somebody who can work with law enforcement to tackle economic crime?

Martin Swain: One of the main measures is ID verification. That is one of the biggest gaps in our register at the moment. We do not verify people who are setting up and running companies. The fact that we will know them and have verified them is key. We are taking considerable powers in the Bill to do things that we cannot do at the moment. We cannot query information that is filed with us. We cannot analyse and proactively share information. At the moment, we are very reactive. I use the word "passive", and "reactive" is another word that I would use. We react to colleagues such as Adrian coming to us saying that they want information on certain things. In the future, we will be able to do our own intelligence work and will proactively be able to work with law enforcement.

Q86 James Daly: I am assuming, Mr Searle, that as somebody in your position, you want to see the transformation of this organisation from a passive organisation to a partner that will work with law enforcement to do what we require.

Adrian Searle: For sure. It is a really fundamental change. I already have folk from my intelligence and investigative teams in the National Crime Agency working with colleagues in the Companies House teams to help them to set the road map for how they will transform.

Q87 Dame Margaret Hodge (Barking) (Lab): Martin Swain, I think that many of us on both sides of the Committee think not that it has to be more regulation, but that it has to be smarter regulation. If there are businesses operating that are pursuing economic crimes, that does not help business creation or the wealth of the economy. I am a bit concerned that you think the new regulatory measures are more burdensome. Are they not just smarter? *[Interruption.]*

The Chair: Order. You will have 15 minutes in which to prepare your answer.

2.18 pm

Sitting suspended for a Division in the House.

2.33 pm

On resuming—

The Chair: We now resume the evidence session. Mr Swain is going to answer the question that was put to him by Dame Margaret Hodge.

Martin Swain: The question was about the balance of burden against tackling economic crime. I think you asked about the need for smarter regulation. I totally agree. Part of the challenge is how we use our powers in future. I would say that the way in which we use our powers will be around the integrity of the register; we will focus our activity on where we can have the most impact to improve the integrity of the register. In doing so, we do not want to create a burden for legitimate businesses.

The benefit of focusing on the integrity of the register is that we create value. As Adrian said, we already contribute a significant amount of money to the UK economy. If we can improve the integrity of the register so that people are making better decisions based on the data, and people are not being defrauded because of the way in which we are improving the integrity of the register, to me that is what smarter registration should be about.

Q88 Dame Margaret Hodge: I agree. May I just ask you about the authorised corporate service providers who are going to do a lot of this work for you? We have concerns, because although they are theoretically regulated by HMRC, there is pretty much zero supervision and very little regulation. How do we know that we are not just opening a loophole that will enable people to use companies simply as a way of laundering money and committing other economic crime, such as fraud and so on?

Martin Swain: We will not be replacing the AML supervision, which rests with the AML supervisors. The Bill introduces a number of measures around ACSPs which we currently do not do. For an ACSP to file with us, they will need to register with us.

Q89 Dame Margaret Hodge: With you or with HMRC?

Martin Swain: With us. This is separate to their AML supervision. In order to file with us, they will need to register. We will verify the identities of the people who run the agency—the agents—and we will require them to confirm who they are supervised for for AML purposes. We will cross-check that with the AML supervisors. There are also some new offences in the Bill, so people will be required to maintain their records of their supervision with us. If they are suspended from their AML supervisor and do not tell us, that will be an offence. They will also have to maintain records of verification, which we will have the power to check. None of that exists at the moment. An agent can file with us without any of those things happening.

Q90 Dame Margaret Hodge: But the AML supervision still remains with HMRC.

Martin Swain: Yes.

Dame Margaret Hodge: But it does nothing.

Martin Swain: I am not going to answer from HMRC's perspective. If we are talking about smarter regulation, the benefit is that we will have a power and an ability to go back to HMRC and raise flags where we see activity from agents that is not consistent with what we want.

Dame Margaret Hodge: That is very helpful, thank you. I have a quick question for Adrian.

Adrian Searle: Can I come in on that earlier question? The requirement that the company service provider has a UK footprint is a significant shift. Prior to this Bill, overseas-based service providers could provide that third-party service to registered companies. That is a fundamental challenge. When there is a UK footprint, whether it is the supervisory bodies or, potentially, the investigative agencies, we have got a starting point that we can go after, which you cannot do when there is an overseas base.

Q91 Dame Margaret Hodge: They have to go after them, but that is for another day.

Adrian, with your wider remit, there has been a huge decrease in the number of cases that have been taken by the SFO and indeed by all the agencies. One reason is the fear of costs landing on those agencies—for example, the NCA—if they lose the case. Can you give us a view? Do you think we should have a cost cap, in the way we have with unexplained wealth orders? Do you think we should have the American system whereby no costs at all are given to the litigant or the person accused of wrongdoing at the end? What is your view of that?

Adrian Searle: We are certainly very keen to continue to look at that. The cost capping in the UWO regime is attractive. I understand that other colleagues and Government, in particular the Ministry of Justice, have had conversations. They are having concerns raised that that undermines the core principle of loser pays. There are different views on this issue.

Q92 Dame Margaret Hodge: I think there is a difference between civil and criminal. The UWO is a civil offence, so it is easier. Some lawyers will say that if you end up convicted of a crime, you ought to have the right to a full defence, with the cost paid for.

Adrian Searle: We find cost capping an attractive proposition, but we also understand that it is challenging. In addition, we are speaking to colleagues in the Home Office and the Treasury about the establishment of a regime that will help us to manage the risk associated with potential big financial costs if we were to lose a case. There is a governance system that they are proposing to put in place that will help us to manage those risks. It is still early days, and conversations are ongoing, but at least colleagues in Government recognise the challenge that we face. There is no doubt a chilling effect on the agency from the risk associated with financial costs.

Q93 Dame Margaret Hodge: Are you also talking to the Treasury about keeping some of the fines that you manage to secure in the cases that you take?

Adrian Searle: I assume that is a reference to the ARIS system—the asset recovery incentivisation scheme. As it currently stands, we get 50%.

Q94 Dame Margaret Hodge: Does that go through all the agencies—the NCA, the SFO and HMRC? If they have a successful litigation, can they keep 50% of the fine they secure?

Adrian Searle: It is certainly true for the NCA and policing. I would need to check whether that runs across the whole system. I can come back to you on that.

Dame Margaret Hodge: It would be really helpful to have that.

The Chair: We have to move on.

Q95 Liam Byrne (Birmingham, Hodge Hill) (Lab): Martin, has your budget been agreed for 2023-24?

Martin Swain: Not yet, to my knowledge. We have had the confirmation of part of our £63 million, but we are in conversations with the Department around future budgets.

Q96 Liam Byrne: What advice have you given to colleagues about what your budget should be in order to fully operationalise the measures in the Bill to a gold standard?

Martin Swain: It would be very difficult for me to describe what a gold standard would be at this point. We have put in a significant proposal to the Department as part of our spending review preparations.

Q97 Liam Byrne: And how much is that?

Martin Swain: I cannot give you a figure on the budget, but in terms of numbers of people, it was in excess of an extra 100 people.

Q98 Liam Byrne: An extra 100 people. So you think you need at least an extra 100 people in order to operationalise the measures in the Bill.

Martin Swain: That was our assessment at the time. It obviously depends how quickly we can digitise services because, as I said earlier in the session, the quicker we can digitise things, the more we can move people off manual processing into other work. I think it also depends on what the final shape of the legislation is when it gets through. We saw that with the Economic Crime (Transparency and Enforcement) Act 2022, where there were things, as the legislation went through, that changed and we had to adapt and do things differently. It would be wrong of me to estimate it at this point, before the legislation has passed.

Q99 Liam Byrne: Okay. It is obviously a matter of great national shame that UK corporate structures have been used so extensively for money laundering—not just the Azerbaijani laundromat, but the Danske Bank money laundering scandal, which was about €200 billion, with about 40% of that laundered through UK corporate structures. When you are putting your business cases together to Ministers, do you explain to them the economic damage done by economic crime to the broader UK business environment?

Martin Swain: I would probably say we do not need to. We have this package of reform, and it is fair to say we have worked really closely with the Department and people like the Treasury on what the package of reform needs to look like. We have been heavily involved, and we have been able to influence some of the thinking around what the reform needs to look like. However, I think nobody would disagree with the need to reform Companies House. Certainly, we would not; we welcome these reforms with open arms. As an agency, it is probably fair to say that we are hugely excited by the prospect of being able to do things that we have not been able to do in the past.

Q100 Liam Byrne: And the Department shares your excitement so much that it has failed to agree your budget for next year.

Martin Swain: I have not said they failed to agree it. We have not got to that point of agreement yet.

Liam Byrne: Okay. Thanks, Chair.

The Chair: A very quick one from Stephen.

Q101 Stephen Kinnock (Aberavon) (Lab): You talked about outsourcing identity verification, but is that not just a recipe for disaster? If we keep on outsourcing these things, rather than Companies House controlling the process, you are just going to open it up to more fraud and dodgy dealing?

Martin Swain: I do not think we would have the capacity to do ID verification internally, certainly not within the timescale that we are looking at bringing it in. I go back to my point—and I will pick up the point with UK Finance—that we will be operating ID verification to standards that are appropriate across sectors that use ID verification. With any aspect of these reforms, there is potential for gaps in the system. What we are trying to do is design out gaps in the system. However, I think we know from the current companies framework that there are gaps in the system, and even where you plug those gaps, others will appear.

The Chair: Thank you very much indeed to both of you for your evidence. It has been very helpful. We now move on to the next panel.

Examination of Witnesses

Commander Nik Adams, Simon Welch and Michelle Crotty gave evidence.

2.45 pm

The Chair: Good afternoon. We now have Commander Nik Adams from the City of London police, Simon Welch representing the National Police Chiefs' Council, and Michelle Crotty from the Serious Fraud Office. May I ask each of you to introduce yourselves briefly, please?

Commander Adams: Good afternoon. I am Nik Adams, commander in the City of London police and the current lead on economic and cyber-crime.

Simon Welch: Good afternoon. I am Simon Welch, the national co-ordinator for the National Police Chiefs' Council on the economic crime portfolio.

Michelle Crotty: I am Michelle Crotty, chief capability officer at the Serious Fraud Office.

Q102 Stephen Kinnock: The national policing fraud strategy of 2019 said that, although the majority of the police response to fraud is delivered by local forces, capability and capacity varies widely across different areas. The strategy said that the regional organised crime units were "extremely limited" in their capacity. Has the situation improved since 2019, and if not could you say a word about what extra resources or powers might be required? I am not quite sure who is the best person to answer that.

Commander Adams: Shall I start, as the City of London senior rep? I have the advantage and the disadvantage of having been in this job only since April, so I can give you a view of where I think things have got to. I obviously was not part of the network when that report was written. I think it reflected an approach to economic crime that has been very much built bottom up historically, which led to the assessment that policing was fairly fragmented, with different levels of investment and different prioritisation across forces.

As long as economic crime and fraud, in particular, are not part of the strategic policing requirement, it is difficult to really get police forces to galvanise that response. We have seen, however, some fantastic work by the Association of Police and Crime Commissioners to get fraud and economic crime into police and crime plans. We have seen through the support that the City of London police has provided, as the co-ordinating force, a great deal of consistency starting to layer on in local forces. In this year alone, we have visited 29 out of all 43 forces to look at their delivery of the economic crime response and of shared good practice across the country. That bottom-up has given us those improved levels of consistency.

Through the spending review and the police uplift programme, we are seeing significant investment at both a regional and a national level to help us to build some of those capabilities. By the end of this year, we will have proactive economic crime teams built around a consistent model in every single regional organised crime unit. With the anticipated investment from the economic crime levy, we will see the growth of regional economic crime teams—proactive financial investigation at a regional level—and, with our support, the continued network of those teams across the country, which will give us a growing and more consistent approach as we go forward.

Q103 Stephen Kinnock: The challenge that we have is that money laundering prosecutions have dropped by 35% over the last five years in the UK, and the number of crimes being investigated—*[Interruption.]*

Dame Margaret Hodge: I will read out the two figures. The number of crimes under investigation has halved in the past three years, and convictions for fraud offences, according to national crime statistics, have decreased by 67% since 2011. What you are talking about is theoretical; it is not what is happening. At the same time, fraud is going up and up.

Stephen Kinnock: Will you say a word about why that is? The system seems not to be working, so what do we need to do to fix it?

Commander Adams: I will start and then bring in Simon, who is an expert on money laundering. The first thing to say is that fraud is getting increasingly complex. About 70% of all fraud emanates from overseas and, as Adrian touched on, it is very difficult for us to obtain prosecutions and convictions across jurisdictions. That is a real challenge for us, as are the growth in technology, the way in which fraudsters are now exploiting people and the changes in tactics.

Fraudsters are moving away from unauthorised payment fraud, where people's details are stolen and used fraudulently—banks are now preventing somewhere in the region of 65p in every pound of that type of activity—and we are now seeing much more sophisticated frauds, where people are socially engineered, or manipulated, into physically approving transactions. That of course is much harder for technological solutions to prevent, when the target is a human being.

Of course, all that complexity requires a much more complex and sophisticated policing response. As I described, the growth that is coming down the line—in particular

the proactive growth—will not start landing until the end of this year and then, of course, we are several years before we have fully experienced and really competent and effective investigators working on those crimes. All those things will layer on over a period. We anticipate that the technological advances will continue, both in support of us and in challenging us in how we can investigate and progress these crimes. Simon, do you want to comment specifically on money laundering?

Simon Welch: On money laundering, the amount of offences—detected offences—is going down. Criminals are getting a lot more savvy about our tactics and things like that, so we find that they are not having assets in their own names so much—vehicles, houses, things like that—and our opportunities for confiscation are probably going down a bit. However, what you can see from the seizure figures is that the cash value is up, but the volume is down. We are targeting and getting good results from the cases, but it is a smaller number of cases. In reality, POCA is now quite old, and people are used to us going after the money, so they take far more steps to protect that money from us being able to confiscate it.

Q104 Jackie Doyle-Price: Clause 156 extends the pre-investigation powers of the Serious Fraud Office. What is the benefit of that? How will that improve the ability to track all economic crime?

Michelle Crotty: At the moment, we have those pre-investigation powers for overseas bribery and corruption. They allow us to investigate earlier, in particular to identify banking evidence earlier, and to see whether there is a case to pursue. By extending that to fraud and domestic-based issues, we are enabled to do that in those cases. At the moment, we have to take on a case formally and to commit resource in order to exercise the powers. To some extent, we can negotiate on occasion with companies to get that material, but if we have the power of compulsion, it would make it quicker and easier to get the material and so identify whether there is a case there.

Q105 Jackie Doyle-Price: So it enables you to be fleeter of foot—

Michelle Crotty: Yes.

Jackie Doyle-Price: And to address some of the questions we heard earlier—if you can act more quickly and establish whether a crime has been committed, that is clearly more efficient.

Michelle Crotty: It is more efficient and means that, if we follow the money and there is a reasonable explanation, we can screen a case out more quickly, rather than committing more resource and taking longer to reach that decision.

Q106 Alison Thewliss: The Home Office report, "National risk assessment of money laundering and terrorist financing 2020", states:

"Company formation and related professional services are therefore a key enabler or gatekeeper of"

trade-based money laundering. Is there enough in the Bill to remove that risk?

Simon Welch: It is difficult to say. We have heard about the verification processes going on. With the authorised corporate service providers, if we strengthen all that and make things more difficult, we target harm. At the moment, you can register a company from abroad, and there is little opportunity for us to follow that up, especially in a jurisdiction that it is difficult to get information from. The idea of having ACSPs in this country, where we can see them and start the inquiry from the UK, would be very desirable. I am not sure whether the Bill goes that far; I have not read that bit too much.

The Chair: Sorry, you are going to have to speak up. We all wish to hear the answer.

Simon Welch: Sorry—I appreciate that. Authorised corporate service providers, if they are based in this country so that we have a starting point for our inquiry, would be something that we would welcome. That would make it easier for us to start an inquiry. At the moment, if it is coming from a jurisdiction that is not particularly co-operative with us, it might be difficult for us to get that information, so, clearly, we would want to see that.

Q107 Alison Thewliss: Michelle, you were nodding. Do you have anything to add to that?

Michelle Crotty: No. Anything that will help us to identify suspects is welcome, as my colleague has said.

Q108 Alison Thewliss: Okay. Are the measures in the Bill enough to disincentivise the use of shell companies, limited partnerships or Scottish limited partnerships for criminal purposes?

Simon Welch: If they can still get the companies and they can still make them work, they are going to make them work. It is if we make it prohibitively difficult for them to do that—if we make it difficult for them to create their verifications, because they will have to work harder to get the verification sorted out to make sure they have got the IDs sorted out. We have talked about the fee of £12.50 for registering a company. There are lots of arguments about that—frictionless trade and things like that—but we have the lowest price for registering a company pretty much anywhere in the world.

Alison Thewliss: Yes—by some margin.

Simon Welch: So is there a view for increasing that and using it for Companies House to invest in verification? That is something that could be looked at.

Q109 Alison Thewliss: Do you have a view about where you would like the level to be? The Treasury Committee suggests £100.

Simon Welch: I do not know. If you were to ask a businessman what they were prepared to start a company for—how many companies they are looking to start? At the end of the day, if you were just building a couple of companies and you knew you were going to get a really good service, you might be quite happy to pay £100 or whatever. I do not know what is a reasonable price.

Commander Adams: One of the challenges for us in our investigations is how desirable shell companies are to criminals who want to create a legacy pattern that an organisation has been running for many more years than it actually has. Of course, if you are then into a large-scale boiler room-type fraud, whether you are

paying £12, £100 or £1,000, it is simply a drop in the ocean compared with the amount of money you are going to make at the end of that. Making it harder for people to inappropriately and unlawfully use shell companies in the way they are at the moment is what will help us ultimately.

Q110 Alison Thewliss: There has been a growing trend of people setting up companies using someone else's address and name. Presumably those will still exist on the register after this legislation comes into force. What would you like to see happen to clear out the fraudulent things that are already on the register?

Commander Adams: If I am right, the Bill allows for retrospective work to take place. However, as you have alluded to, there are simply millions of entities on there. As you heard from colleagues earlier, the resourcing of those retrospective checks, given all the work that has to be done—there are something like 1,500 companies registered every day in the UK; it is phenomenal—is going to be a real challenge. We would want to see resourcing to do those retrospective checks, to remove those companies from the register as quickly as possible.

Q111 James Daly: What is your view of how clauses 1 to 98—part 1 of the Bill—regarding Companies House reform can assist law enforcement to tackle economic crime more effectively?

Commander Adams: Again, you heard from colleagues earlier about this. The big thing for us is making sure that checks are undertaken to ensure that individuals who are setting up companies or have a significant stake in them are verified, to give us, as Adrian said, those investigative lines of inquiry into individuals. For us, that is the biggest game changer in what we are currently seeing, but of course it will require the right level of scrutiny and adequate robustness in those checks, and the capacity to do them at speed.

James Daly: Ms Crotty?

Michelle Crotty: The same—anything that allows us to identify the people behind it and then to use that to follow up with lines of inquiry. Capacity is certainly something that we would be concerned about, but the work that the NCA and the NECC are doing with Companies House should help with that, in terms of training Companies House staff.

Simon Welch: It would also be nice to be able to data wash some of the registrations through law enforcement indices before they were actually registered. That is obviously another quantum leap from where we are now. I think we are looking at sharing that data, but that is another thing for Companies House to work out, in liaison probably with the NECC. I think that would be preferable for us. Then we could prevent these companies from opening up in the first place, and stop them being used as vehicles for criminality.

Q112 Dame Margaret Hodge: Michelle Crotty, what would you feel about the introduction of an offence of failure to prevent economic crime?

Michelle Crotty: We are very strongly on the record as saying that that is an offence that we would like to see. We have seen good results with it in relation to bribery and corruption since its introduction in 2010. Nine of our 12 deferred prosecution agreements have involved a failure to prevent bribery offence. We think that it not only punishes but helps to reform corporate behaviour. What we have seen with the Bribery Act 2010 is that companies have very much focused on putting adequate procedures in place because that is the defence that it provides them. The prosecution is one part of it, but actually the preventive work in terms of adequate procedures is as important, if not more important.

The other thing that we would say in terms of the impact on business is that for a failure to prevent economic crime offence many of the adequate procedures would already be in place in terms of anti-money laundering and other areas. Clearly that is something that the Committee, and guidance, would need to work through, but the impact on business may not be as heavy as some might fear.

Q113 Dame Margaret Hodge: Do the other two witnesses agree?

Commander Adams: Yes. Ultimately, as Michelle said, I do not think that the imposition on business would be that significant. There are lots of areas where we see unintended consequences of thresholds upon which, or below which, things are not reported to law enforcement. That sort of legislation would give us the ability to ensure that there are policies and processes in place in institutions to provide the sorts of checks and balances that identify patterns that might fall outside some of the clearly defined breaches of legislation. That, for me, would be the galvanising benefit of that power, in a not dissimilar way to financial institutions reimbursing victims, which helps to galvanise effort and investment into preventing crime, to avoid spending money out the other end. All those sorts of measures are really helpful. Particularly through Adrian's role as director of the NECC, I think he would say that the things that help to galvanise the partnership and the whole-system response to fraud is where we will ultimately see our biggest successes.

Q114 Dame Margaret Hodge: The other brake on pursuing the bad people is the fear of failure, and therefore the burden of costs on the public purse. Would you like to see the cost capping that has been introduced on unexplained wealth orders extended here, or do you have other ideas about how we can try to make that brake less solid?

Michelle Crotty: The SFO would like to see those. We understand the concerns that other parts of the system have in terms of how you ringfence a cost regime just for economic crime. In terms of what the SFO can recover in any one year, we can retain £900,000 of legal costs if we win. Clearly, it is the other way if we lose, and there are ongoing discussions with the Treasury. I gave evidence to another Committee last week that, where we do not have a fund available to us for that that sits within our budget, we have to go and negotiate one with the Treasury if we lose. We would certainly welcome some protections, but we understand the challenges around fitting them into the broader scheme.

Q115 Seema Malhotra: I want to come back to some comments made by DCI Welch, which were very instructive on the challenges—we have heard it in some of the data

as well. I think you referred to criminals not putting assets in their own names, thereby making them harder to find and seize. Do you think that the Bill gives sufficient powers for tackling fraud, especially through the use of fraudulent names and addresses? If not, what else needs to be done to help you all do your work more effectively, but is missing from the Bill?

Simon Welch: Obviously, we are putting more resource into this area. If we are to go after them proactively, we are building up our intelligence around this. Historically, fraud has not been given the same emphasis as other types of criminality, so I think we lack in some areas. If we start to build that up, to get more intelligence that is actionable for us to work on, and to go after some of these people proactively as opposed to reactively, we will be getting ahead of the game, and then we will be able to arrest these people and prevent other people from becoming victims. It is important to invest in this area. It is a difficult time for us, because recruitment and retention of staff are challenging. We are looking to build, and are getting investment streams coming into us. We are looking to develop that all across the piece. We are looking at the intelligence and at the proactive capability and the investigative capability to take this on.

Q116 Seema Malhotra: Is it all about resources, or is there more?

Simon Welch: Resources are a big part of it, but there is experience as well. If we bring in new people, they are unlikely to be the most experienced investigators. Unfortunately, in recent times, we have lost a lot of our middle-ranking, experienced investigators, so we are having to bring people through quite quickly. There is quite a quick turnover now, especially in things like crypto investigations, because those skills are very desirable in the private sector. It is really difficult for us to hang on to those people, so we are going through a bit of a treadmill trying to recruit and hang on to them. Mr Adams is looking at things like structures and strategies within the force to try to hold on to people and to look at different ways of retaining those skills and experience to make us that much better at investigating these things.

Q117 Seema Malhotra: Do the other witnesses have anything to add? Is there anything specific that will assist in some of these challenges? How much are resources constraining what you are able to do?

Michelle Crotty: It is fail to prevent for us, and it is capacity, capability and retention. As my colleague said, we can train people up with fantastic training, but the real challenge is that they are then very valuable recruits—not just to the private sector, but within the law enforcement community and in how we operate jointly to ensure that we build a pathway for people within law enforcement, as well as out into the private sector.

Commander Adams: The final thing to add to all of that is technology. The licences for the tools that we are able to use at the moment, particularly some of the tools for tracking crypto assets, are expensive. When you start to build up those layers of individual costs that Simon described on the tools and technology, to be really effective we have to bring those together with highly skilled and highly competent individuals. All that is a challenge for us at the moment, in the recruitment environment that we face.

Q118 Liam Byrne: Nik, I want to crystallise a couple of things. Is it your impression that economic crime is growing?

Commander Adams: I am not sure that my impression is the thing to take as gospel here. We see from the crime survey, our annual reporting and the growth in trends around victimisation that fraud is growing year on year. We predict that there could be anywhere from 25% to 65% growth in fraud over the next four to five years. If we were to go around the room and ask for a show of hands on who has received a smishing or phishing message, versus those who have been burgled in the past 12 months, I think we would be staggered at the volume.

Q119 Liam Byrne: Simon, is it the position of the National Police Chiefs' Council that more resources are needed to tackle economic crime? Do you have a gut feel for the order of magnitude of the increase needed?

Commander Adams: It is a really complex landscape. We have a great deal of investment from the private sector in some of our specialist capabilities. We need more investment at the frontline of policing in undertaking economic crime investigations at that most basic level. That does not mean more people; it means investment in training to ensure that all frontline officers can deliver that.

Q120 Liam Byrne: Yes—but Simon, what is the National Police Chiefs' Council perspective on that?

Simon Welch: As Mr Adams says, we could always do with more people—if you ask, we will always say we want more staff—but the reality is that it is difficult to bring them in at the moment because we are not offering wages that are competitive with some of the other agencies or the private sector. We are struggling to build that up. If we can build that up and maintain some trajectory so we can hang on to some of the staff to get them to an experienced level, we will start to see more impact on performance there, but we need to work on that really hard.

Commander Adams: I touched at the beginning on the investment and the proactivity around both financial investigation and fraud investigation. We have to see some of that investment land, get people into the posts, do the work that City of London police is doing as the national lead force to co-ordinate that activity across the country, and see what effect that has. That will then inform the business case and the arguments that we make for more or different resource in the future.

Q121 Liam Byrne: Understood. Nik, you also said that you were watching criminals move assets into proxies, basically, in order to safeguard them. We heard this morning that the Bill will not place a duty on Companies House to verify who has the economic control of a particular asset. That sounds like a problem to me. Do you agree?

Commander Adams: That might be one for Simon.

Simon Welch: Yes. You can identify a person of significant control, but sometimes it can be difficult if you are looking at the people who ultimately have

control of some of those companies, because you have people stood up saying they are that person, but there are people sitting behind that person. It depends how good your intelligence is whether you can work these things out. Very often, if you investigate these people, you will be able to see that they have control of the company. If you do not investigate them, you will not be able to tell. You need to be on them with the right intelligence to work it, and then you might have an opportunity to show that they were running that company.

Q122 Liam Byrne: Yes, so we may have to beef up the verification requirements for Companies House.

Simon Welch: As an ex-policeman, I will always say yes to that, but obviously there are implications, because you need the resources down there to do it. Obviously, we will always go for the gold standard wherever possible, because if you are doing that, you are stopping people getting in at the first level, but there are obviously implications of the cost of that. But yes, of course we want the highest standards of verification.

Q123 Liam Byrne: With your indulgence, Sir Christopher, I will ask a last question to Michelle Crotty. We have heard at the Foreign Affairs Committee that it is often difficult to get evidence from bad regimes even though kleptocrats may have made their fortunes in those countries and laundered that money through UK corporate structures. Given the unavailability of that evidence, do we need to think about onshoring offences that might help us freeze or seize assets for the committal of a crime here in the UK?

Michelle Crotty: It is certainly an issue for us. We would be interested in the proposal. If the evidence is overseas, even if the offence is based here, I think we would want to think through the mechanics of the prosecution. There would be some detail to work through, but in principle, I think we would welcome looking at that kind of offence.

The Chair: If there are no more questions, I thank the witnesses for their attendance and their contributions.

Examination of Witnesses

Dr Susan Hawley, John Cusack and Thom Townsend gave evidence.

3.13 pm

The Chair: We now have evidence from Dr Susan Hawley from Spotlight on Corruption, John Cusack—via Zoom—from the Global Coalition to Fight Financial Crime, and Thom Townsend, representing the UK Anti-Corruption Coalition. Can I ask Dr Hawley and Thom Townsend to introduce themselves first?

Dr Hawley: Hello. I am Dr Susan Hawley, executive director of Spotlight on Corruption. We are a UK anti-corruption charity that monitors how the UK enforces its anti-corruption laws and keeps its international anti-corruption commitments.

Thom Townsend: Good afternoon, everyone. My name is Thom Townsend. I am the executive director of Open Ownership and the incoming chair of the UK Anti-Corruption Coalition. Open Ownership supports more than 40 Governments around the world to implement exactly these types of reforms.

John Cusack: Hello everyone. My name is John Cusack. I am the chair of the Global Coalition to Fight Financial Crime, which is an NGO. It is a 20-member organisation, both public and private, with large members such as Interpol and Europol, as well as Open Ownership—Thom's organisation—and RUSI, which you may well know in the UK too.

Q124 Seema Malhotra: Thank you all for coming to give evidence today. I want to start with a couple of questions. First, in your view, does the Bill provide adequate guarantees against companies that have opaque corporate ownership based in secrecy jurisdictions? Could and should the Bill be further improved to prevent companies' continued use of offshore and opaque corporate ownerships?

Secondly, does the Bill provide enough mechanisms to help with transparency around the new responsibilities of Companies House, and should there be reporting—to Parliament, or certainly publicly available—on new powers? What would you want to see in order to have confidence that measures are having impact?

The Chair: Who wants to go first?

Thom Townsend: I think that there are significant areas of improvement for the piece of legislation that we see before us. Primarily, from our perspective, we focus on reform of company registrars around the world, so my focus is very much on how Companies House can better operate. The key area we would identify is around the verification mechanism, as you would expect, and that splits out into two points.

One is around how we verify someone's identity versus how we identify and verify the statement of control and ownership that they are giving about their involvement with the company. That second part—their status—is not covered here. We are not putting in place mechanisms to understand whether the disclosure of beneficial ownership is accurate, and that is a significant problem. A colleague talked previously about having a gold standard, but we are far off that. We see company registrars in countries around the world taking meaningful steps to attempt to use their data and powers to begin to understand whether those statements are true. That needs to be significantly beefed up in this legislation.

On the second part—the ID of individuals—there are grave misgivings about that being outsourced to the trust or company supervisor profession. There are other ways of identifying people: in an ideal world, Companies House should be doing that. That is a big change for this piece of legislation, but frankly, that is where most of the world is going.

Q125 Seema Malhotra: Could you give an example?

Thom Townsend: It is worth saying that countries that are doing very well on this typically have a national identity card system that is the foundation of their ID process. There are other ways of doing it. I think about Estonia, France, Germany—the list could go on, but it is based around their national ID card system. Clearly, we do not have that. The Government have done significant work on their own identity verification programme, which has had mixed results. We know we can do this. It does not necessarily need to be outsourced to that profession, which of course is supervised, but we collectively have severe misgivings about it.

On the second point around the accountability mechanism, we would like to see a very strong mechanism for Companies House to be coming to Parliament on a regular basis to talk about how this is looking and how it is performing. It is a much broader conversation about the kinds of indicators we would like to see reported on. That is a much longer conversation, but I will pass over to colleagues at this point.

John Cusack: I share Thom's views, principally, on this. I spent 30 years working in banking as an MLRO—that is the previous history to my current role—and I spent many, many occasions trying to establish beneficial ownership. It is not easy, but it is the key to understanding risk and understanding who owns and controls a bank account, real estate or a company. That is absolutely key. I would like to see an obligation on the companies register that is essentially equivalent to that which a bank has in relation to knowing its customer, to the extent that that is possible. That is where we need to get to. Thom was explaining that some of the better countries are trying to get to that kind of standard.

Secondly, I believe that the registrar of companies needs to have a much stronger obligation than is currently set out in the proposed legislation—it needs, again, to be slightly similar to my old obligations as an MLRO. There needs to be an obligation to operate an AML programme that is worthy of the name, and to have strong and meaningful controls in order to be able to demonstrate that Companies House and the companies register are doing a similar job to what other people do in the private sector.

Dr Hawley: I would like to strongly back that up. It is essential that the "know your customer" rules that the private sector has to use are used by Companies House as well. There is no point having a registry that SMEs cannot rely on because it is not as accurate as it needs to be. That has been a problem now that the big companies simply do not use the corporate register because it is so inaccurate. There is a long way to go on that.

We also have real concerns, as Thom mentioned, about the authorised corporate service provider provision in the Bill. In essence, it relies on another part of the system—the anti-money laundering supervision system—and the danger is that we are just playing whack-a-mole. We are just pushing the problem down the road. We know that HMRC, in its supervision of TCSPs, has had lots of very serious questions about whether it is up to the job, and it just recently revised its average fine level down from £250,000 to £8,000. There are real questions about whether that is a serious deterrent. In its recent report, it found that nearly 50% of its cases that went up to the governance panel had to be returned to the case officer for serious work to be done again. Either the Bill needs to address the AML supervision regime—I can tell you some of our suggestions, because it would not be that difficult to come up with a transition—or there are real questions over whether that clause should be in it at all.

A final point, which was picked up earlier by colleagues from law enforcement, is about how this will be funded. The registry will be meaningful only if there are proper resources. It can be completely cost-neutral to the Treasury. We are heading into a difficult fiscal time, so it needs to be cost-neutral. As the gentleman from the National Police Chiefs' Council said earlier, we have almost the lowest registry fee. We are the 6th lowest, in company with Rwanda, Timor-Leste, Ukraine and South Africa. Most other countries charge an average of £150 to £300, compared with £12. That could go an enormous way to getting the right IT infrastructure. We know a lot of this will have to be done with technology and AI. Making sure that the fees for Companies House are set at a realistic level to make this properly verified is essential.

Q126 Jackie Doyle-Price: To follow up on that point, we have a principle in this country that the fees should match the operational costs. We are adding to what Companies House will be doing in that active management. That would make a case for an increase in the fee to meet the costs, would it not?

Dr Hawley: Absolutely. The key thing is what John alluded to—clause 88. What is the requirement in the Bill for how far the registrar has to go? If it is the minimum amount, the fees will be minimal. If we are going for the gold standard, the fees will need to be higher to reflect the greater verification work.

Thom Townsend: Just a quick thought: what strikes me, reading the Bill, is that it is not quite clear what Government want Companies House to be, when you delve into the detail. Is it around minimising criminal activity, as in the fourth objective? Is it about preventing, which comes up in clause 88? That needs to be resolved to give a very clear idea in primary legislation of what we want Companies House to be. It should be the first line of defence in the UK economy from the perspective of integrity and preventing crime.

Q127 Jackie Doyle-Price: I guess it comes back to the discussion that we are having about the twin-track objectives that pull in opposite directions: to enable it to be part of the framework for tackling economic crime, but also to enable business. In your opening comment, you stated that we are a way away from the gold standard. I think we would all agree with that—that is why we have this Bill, frankly, and I certainly have ambitions for it—but I want to probe you on what you said about a national identity card system. Surely you are not suggesting that we cannot improve this kind of scrutiny without a national identity card system. There are other ways to establish that, and other ways of knowing your customer.

Thom Townsend: Absolutely. My point was just that countries that do have been able to go further and faster as a result of having the underlying infrastructure. But no, absolutely, you can do that. We have brought down the cost of identifying people in this country very rapidly, with KYC for new banking, and taking a video of yourself. We have a lot of technology and lots of ways to achieve that end. It does not have to be done through the trust and corporate service provider industry—it simply does not.

Jackie Doyle-Price: That is helpful.

John Cusack: I will just add to Thom's point about clause 88. The language concerns me greatly. This will be dependent on the registrar's diligence and, essentially, on the financing that the registrar has in order to carry out their activities. The language—that the

"registrar must carry out such analysis of information within the registrar's possession as the registrar considers appropriate"—

is extremely timid. If there is no money for it, the registrar will not be doing anything. That is really problematic. We would not apply that in any other circumstance; we would want to set out the obligation—the expectation—and to fund that appropriately, not the other way around.

Q128 Alison Thewliss: I have some questions about whether the Bill is sufficient to deter the abuse of shell companies, limited partnerships or Scottish limited partnerships.

Dr Hawley: We focused more on what is not in the Bill. I do not know whether John or Thom want to address that.

Thom Townsend: I would hand over to John on this one.

John Cusack: The Bill is positive. It is one of the contributions that will definitely help, and it is trying to fix a long-standing problem. At the end of the day, however, if we want to deal with financial crime, economic crime, we need convictions—investigations, prosecutions and convictions—and asset recoveries. That comes from resourcing the public sector, as well as demanding high expectations from the private sector. I am worried that in the UK the financing of law enforcement, and of the FIU in particular, is insufficient to assure the objectives that we all want, which are to mitigate, manage and reduce harms from economic crime. This is a long-standing weakness in the UK, as it is in many other countries, and that would definitely help, but let us not kid ourselves that it will make a material difference to the economic crime situation in the UK.

Q129 Alison Thewliss: Do you share my concerns that previous Bills to tighten things up—for example, for Scottish limited partnerships—have not been met with enforcement action? Since the changes to the persons with significant control regime came into force, only one fine has been issued, to the value of £210. Would you like to see more enforcements and more follow-up of those who are not applying the current rules?

John Cusack: Yes, of course. I would support that. However, I would also say, with respect, that the idea is to do prevention with the changes. When we put a lock on the door of an aeroplane, the fact that no one has stormed the cockpit is not how we judge whether a lock on the door is appropriate. We are tightening things up and preventing financial crime, but yes, absolutely, we need to see more enforcement. You would hope that these measures will mean that people will no longer necessarily look to UK companies and Scottish limited partnerships as the vehicle of choice for abuse, and they will look elsewhere.

Q130 Alison Thewliss: May I ask about the issues with the register as it exists? There are lots of things on it that are inaccurate, deliberately false or involving the misuse of people's personal information and addresses. How much do you feel that Companies House has to go back actively into the register to figure out what is wrong with it and to put it right?

Thom Townsend: When this legislation passes, there will be a lot of remedial work to sort out what is there—there is no doubt about that. Everything that you have just described is true, and it is probably a lot worse even than we are aware of. As you just mentioned, we are clearly starting from such a low bar that any legislation will have some kind of deterrent effect, but it is important to think not just about ensuring that we hit the gold standard with a piece of primary legislation. It is also the resourcing, but ultimately nothing that we can do will create a 100% perfect system.

Essentially, we are trying to remove as much noise as possible from the system to give law enforcement the best possible chance of focusing its resource where it can make the most difference. It is important not to think about this in zero-sum terms of: is it possible to commit crime or not? It is really just about making an environment where it is somewhat more manageable to detect, and then enforce. As it stands it, is the wild west on that register. If you wanted to do enforcement, we would be here until the end of time.

Q131 Alison Thewliss: Yes. Finally, can I ask you, John, whether there is any particular recommendation that you would like to make on the register of overseas entities section of the Bill?

John Cusack: Not necessarily, because what I am most interested in is getting the Bill out in its current form with a financed and adequate registrar with obligations, and resolving that underlying issue. One of the reasons people use UK companies is not so that they can open UK bank accounts, because then you go through the gamut of UK obligations in the regulating sector, even though that happens occasionally when buying real estate and other things. Actually, people buy and acquire UK companies and Scottish limited partnerships so that they can open accounts abroad, because the UK is seen as a first-class jurisdiction. That means that when they open those accounts abroad, not many questions are asked, or not as many as would be if they were acquiring a Nigerian company, for example, which would ring all sorts of alarm bells. The interesting thing about the companies registry is that the abuse by foreigners does not necessarily translate into a UK economic crime issue per se, even though it is something that we also all want to address.

Q132 Dame Margaret Hodge: Indeed, it can sometimes lead to terrorism as well as other crimes. May I ask one short question of you all, and then a longer one? We have talked about the importance of looking at persons with significant control. Do you think that we should reduce the threshold of having a 25% shareholding to 5%? Would that help?

John Cusack: For my high-risk customers, I always had it at 10% in my financial institutions, and 25% for non-high-risk customers, because I really wanted to ensure that I had almost everybody who could possibly be interested in the company or a relationship. I stuck at 10%, but you can always argue it lower or a bit higher.

Thom Townsend: Yes—whether it should be 5% or not, it needs to be lower. There is an argument to be made between 10% and 5%. My sense is that we have a 25% global standard on this because it is a sort of round number.

Dr Hawley: It is really interesting to look at what Jersey and Guernsey are doing on financial crime. They have a 10% threshold, and they are introducing a lot of other very interesting economic crime measures that go far further than we have in the UK, including a failure

to prevent money laundering offence. They also have a measure to forfeit accounts based on a suspicious activity report, so they are really looking at very radical measures in Jersey and Guernsey that will make the UK look quite behind.

Q133 Dame Margaret Hodge: Good. Thank you for that. I recognise that you have all made an incredibly important contribution to the debate, so thank you for that, and for the support that you have given us in developing our thinking. I sincerely mean that. I think we all see the Bill as a start, and we would like to add to it. The pragmatic reality is that we have to prioritise what we add in. For each of you, what are your three top priorities for what could be added to strengthen the effort against economic crime? It is a bit of a tough one. I have a list that is longer than three, but I would be interested in your top three.

Dr Hawley: I would say that that is the easiest. It is a great question and I will jump in, because I have my three. It would be really fantastic if Parliament signalled that its intention is not to pass a Bill that will just stay on paper; it needs to be properly resourced and make a real difference in terms of economic crime. There are three different cost-neutral ways of doing that, some of which you mentioned in earlier discussions. One is cost protection across civil recovery for law enforcement. The US-style system really works. If we want US-style enforcement, we need US-style rules.

Another way is to increase Companies House fees to match the scale of verification that we need. The other way is to invest far more. In the US, 100% of forfeiture goes into a central fund, and local police get up to 80%. We heard earlier that the NCA gets 50%; some police forces only get 18%. We also desperately need to find ways to match the money that law enforcement brings in. Law enforcement brought in £3.9 billion over the last six years. If that had been reinvested in law enforcement, we would have top capability in this country.

There are two other things. I have mentioned AML supervision already. If we could make the Office for Professional Body Anti-Money Laundering Supervision a body that genuinely raises the consistency of supervision across the board while the Treasury works out the bigger picture on supervision, it would make a really big difference. OPBAS could name and shame supervisors who were not performing, and that needs to apply not just to the legal and accounting sectors, but to HMRC and the FCA.

Finally, there is corporate liability reform, which you also referred to earlier. We have been waiting for it. It was in 2015 that there was the first Conservative party manifesto commitment to have a failure to prevent economic crime offence. The Law Commission has now spoken; we have been waiting a long time for it. Ideally, you would have a failure to prevent fraud offence, a failure to prevent false accounting offence and a failure to prevent money laundering offence, but you also need to bring in a change in the identification doctrine for the schedule 8 offences to make this work.

Thom Townsend: Unsurprisingly, verification—the first thing would be to think very hard about whether it is the trusts and service providers sector that we want to do that, to think much more broadly about what other mechanisms are available to us, and to cast the net widely around the world; there is a lot happening.

Secondly, the statements of beneficial ownership and significant control should be verified too. That is a far harder task, because the world has not figured out entirely how to do that. There are some really good examples; places such as Austria are doing good work, but it is largely about using data from across Government to make sure that you can red flag those statements.

Thirdly, we probably also need something in the Bill about having a more permissive data-sharing environment, to make sure that Companies House is getting what it wants. If you look at how the Bill is currently drafted, we have data that is "in the registrar's possession" or "available to the registrar". It is very unclear what that means, and it needs to be much broader than that.

A supplementary fourth point is to think long and hard about how we are using an identity, once verified, persistently in a lifelong way. Australia, New Zealand and India issue unique identifiers to directors—and, in Australia's case, to beneficial owners—for life, which makes the investigation process much more straightforward. There is a lot of good practice out there. We need to look very hard at that and think about how we incorporate it into what the UK is doing.

John Cusack: As far as the Bill goes, I have mentioned one point already, which is the item in relation to beefing up the obligation on the registrar. The second piece is on the information-sharing provision in the Bill—I think it is clause 148. It is a limited information sharing item that essentially requires a SAR to be filed before private information sharing can take place. There is also the exit, pretty much, of the customer, which is potentially problematic. We are going to find that one potential bad actor leaving one bank cannot then open an account somewhere else, but we will also find that innocent people will be involved in that. I would rather have something broader, which allows the detection of unidentified financial crime, whereas, in this particular case, we are going to get identified suspicion being shared, which will potentially lead to some very serious unintended consequences, even though I am very supportive of the provision.

The last thing that I would say outside the Bill is that, ultimately, it is about asset confiscations and asset seizures. The UK is doing okay, but it is not doing anywhere near as well as it should be, and it is certainly underperforming compared with a number of important countries. I will give you one example. Italy not only seizes the amounts that Susan was talking about, but over four or five years it seizes almost £10 billion a year in asset confiscations, because it treats the Italian mafia as a matter of national security and targets its resources accordingly. I would like to see not a change in the law, but the rightsizing of the resources across the piece, whereby they are directed toward the tip of the spear, so that law enforcement FIUs in the UK and asset recovery can be prioritised and targets set, and we get close to the Italians, rather than being where we are today.

Q134 Liam Byrne: Susan, can I ask you to spell out what will happen if we do not align the verification procedures in the Bill with the obligations that currently bite on the AML sector?

Dr Hawley: I alluded to one point earlier, which is that if this is not a registry that companies and people can rely on, it will have been a waste of time and money. I alluded earlier to SMEs particularly not having the

resources and having to rely on Companies House in a way that large companies would not; they would do their own intelligence. It will be bad for business and the business community, and it will be bad for the UK's competitiveness. If you look at our competitiveness rating under the World Economic Forum measures, we are pretty good on quite a lot of things—in the top 10—but for tackling serious and organised crime we are 70 out of 141. That is a competitiveness rating, so it will dent our competitiveness. Actually going for gold standard practice will be good for the economy, and will make us more competitive.

Q135 Liam Byrne: Thom, the registrar's objectives are set out in clause 1. They are pretty woolly. How would you like to see them improved?

Thom Townsend: Objective 4 does really need to say "prevent". It is an objective related to the registrar's functioning. The registrar should be responsible for taking really active and clear measures to prevent criminal activity under its bailiwick.

Q136 Liam Byrne: It currently says "to minimise" the extent to which companies do bad things.

Thom Townsend: That seems like a ridiculously low bar.

Q137 Liam Byrne: My final question is: what is the correct interrelationship with the registries of beneficial ownership that are coming into place?

Thom Townsend: Sorry, what do you mean?

Liam Byrne: We have registries of beneficial ownership for assets and property. We have to try to make it possible for law enforcement to connect companies, individuals and assets. Do you think we have the framework for connecting those three dots effectively?

Thom Townsend: As it stands, no. Some form of this legislation will go a lot further. We need to look at how we are uniquely identifying people. In that case, there is an argument for bringing that ID process in-house so you have clarity around it. You can assign that identifier, which then gets used across the panoply of datasets that law enforcement have in their possession to do that interconnectivity. We run the risk a little bit, as the legislation is currently framed, of creating another island that is a bit better connected but probably will not sit at the heart of the process and be that effective first line of defence that the UK economy should have.

Q138 Seema Malhotra: I want to come back to asset recovery. There is a question about automatic strike-offs by Companies House. Would any reforms to those procedures—for example, for companies that potentially want to be placed in a compulsory liquidation process—be better, and allow for investigation and potentially asset confiscation by insolvency practitioners where those companies may have been guilty of criminal activity and money laundering?

Dr Hawley: Ensuring that companies cannot just liquidate has been incredibly important to law enforcement in the past. I am very sorry, but we might have to get back to you on that because I have not looked specifically at that clause.

Q139 Seema Malhotra: I want to come back to some of what we have heard about Companies House. It feels as if quite a lot of the new functions might be outsourced in different ways. Mr Townsend, you made a point about what could and should be done in-house. I would really appreciate hearing your view on whether more can be done in-house. Is there not a danger that that might weaken the safeguards that we bring in?

Thom Townsend: I think there is a balance between speed and effectiveness. Companies House is fantastic at what it does now—it provides a really good service to register a business quickly, and it is really easy to use—but it has never had to do the kinds of things that we are now proposing it does. It will be a long journey to get from where it is today to the sort of high-functioning all-singing, all-dancing machine that we are proposing.

There is a balance between achieving the objectives of the Bill, and the wider goals of dealing with corruption and countering kleptocracy in the UK. We will probably have to look at some sort of transitional arrangement but, ultimately, we should have a much more aspirational and ambitious vision for what we want Companies House to be in five to 10 years' time, put the resourcing in place, and ensure oversight and accountability to drive that forward and make it happen.

The Chair: Would anybody else like to answer that question? No? In that case, I thank all three members of the panel for their help in giving evidence.

Examination of Witnesses

Oliver Bullough and Bill Browder gave evidence.

3.46 pm

The Chair: We come now to the next panel, for which we have until 4.30 pm. This panel comprises two people, both journalists, authors and experts—if I may put it like that—on the Russian Federation. I extend a very warm welcome to Bill Browder, who is in the room, and to Oliver Bullough, who is appearing via Zoom. Bill, would you like to introduce yourself?

Bill Browder: Good afternoon. Just to correct that, I am not a journalist; I am an activist and author. I am the head of the Global Magnitsky Justice Campaign. Basically, my life for the last 13 years has been the result of the murder of my lawyer in Russia, Sergei Magnitsky. My campaign has taken two tracks. One is to get the Magnitsky Act, which imposes asset freezes and visa bans on human rights violators and kleptocrats, passed in different countries, including the UK—35 countries have the Magnitsky Act.

The second part of my activity has been to trace the $230 million that Sergei Magnitsky discovered, exposed and was killed over. We found that that money was going to 24 different countries, and we filed 16 different criminal complaints. From those criminal complaints, I have had the opportunity to see at first hand who does it well and who does it badly, and let me tell you: this country does it badly.

This country has never opened a criminal investigation into the money laundering connected to the murder of Sergei Magnitsky, even though many other countries have done, and have frozen and seized assets. I hope that we will have the opportunity to talk about why that

is the case, because I think I can make some proposals for the legislation that might cause this country not to be at the bottom of the league table.

The Chair: We will come to the questions in a minute. Oliver Bullough, would you introduce yourself, please?

Oliver Bullough: It is great to be here. I am sorry that I am not there in person. It is half-term and I have the children in the other room, with instructions to be quiet. It is an honour to appear alongside Bill, who I have known for a long time and whose work I have been following since even before he was an activist outside Russia—when he was still fighting corruption inside Russia.

I am a Russia enthusiast—a Russophile. I worked in Russia as a journalist for a long time. I inevitably came across corruption, because it is difficult to spend any time in Russia without coming across corruption, but the more that I investigated corruption and the more time I spent looking into it, the more I realised that it cannot be understood as simply a Russian phenomenon. The money does not stay in Russia; it moves out of Russia and too often it ends up in the UK, where it buys real estate, football clubs and many other things. I have been spending, I suppose, most of the last decade attempting to map how money moves from kleptocratic countries via tax havens and ends up in cities such as London, in order to work out how corruption really works and cut through some of the simplifications that are often used.

Q140 Seema Malhotra: Thank you both for taking the time to give evidence today. I have a broad question for you, because the contributions that you have already made and that I think we will hear from you will really enrich our discussions. Obviously the Bill makes progress on improving law enforcement bodies' ability to identify fraudulent and criminal activity in our economy, but in the light of what you have just said, Mr Browder—on the lack of action that we have actually taken on the Magnitsky issue—where do we need to go further in identifying criminal activity and economic crime, and in seizing those assets? What can we learn from other countries about things that you say the UK does not do well, and where can the Bill be improved?

Bill Browder: Thank you. This is the crux of the whole issue. By the way, it was not just Magnitsky money that was not investigated. We have this problem; since Vladimir Putin has come to power, he and 1,000 people around him have stolen $1 trillion from the Russian people. This has been the largest destination of Russian money laundering. In 22 years since he has come to power, not a single money laundering prosecution has come out of Russia—not one—and we are talking about $1 trillion.

What is going on here? What I have learned is that the law enforcement agencies effectively refuse to open criminal cases unless they are 100% sure that they can win without any tough fight on the other side. Why are they so risk averse in opening cases? It comes down to simple risk-reward for them. Their budgets are very thin, as law enforcement does not have a lot of money, and when they go to court here on any type of civil case—it is not true in a murder case, but it is true in a civil case—if they lose at any point, not just at the end of the case, but at any point procedurally during the case, the loser has to pay the winner's court fees, and there is no budget for that. Therefore, the UK law enforcement agencies will not take that risk.

I have seen it done differently. We presented the United States Department of Justice with the same information. They do not have that problem; they can open a case, conduct an investigation and build their case as they are doing their investigation, and if they lose, nobody loses their job, nobody is bankrupted, and no departments have to go back and beg for more money from the Government. Whatever money they have spent on their lawyers is the money they have spent.

What has to happen here—this is plain as day—is that you have to get rid of this adverse costs issue in a civil case brought by the Government. You could easily write an amendment to the law as it is written, because it is not here right now, to say that if the Crown Prosecution Service brings a money laundering case or an economic crime case, there are no adverse costs. If you make that point, it will change the whole dynamic—the whole risk-reward—for these people.

Q141 Dame Margaret Hodge: You talked about civil cases, Bill, and I think we should publicly recognise the contribution that Bill Browder and Oliver have made in this space—it is brilliant. You talked about civil cases but say, fingers crossed, we get a criminal offence for failure to prevent, what would you do in those cases to ensure that costs do not act as a brake on the enforcement agencies taking action?

Bill Browder: The same thing.

Q142 Dame Margaret Hodge: So you would do it for both civil and criminal cases.

Bill Browder: I was not even aware that in a criminal case, a murder case, nobody pays adverse costs. I am not sure if you bring a criminal case in these other—

Dame Margaret Hodge: I think in a murder case they would, actually.

Bill Browder: Would they?

Dame Margaret Hodge: I think so, yes. I am no lawyer—God, I am looking around the table for a lawyer.

The Chair: When I practised as a lawyer, if somebody was acquitted they would be able to ask for their costs to be paid out of what are called central funds, so the taxpayer would be paying for them, not the prosecuting authority.

Bill Browder: However you want to define it, what I would say is I have seen how it works in other countries and they do not have this issue. Therefore, there is no disincentive to bringing a case. It is just remarkable. In every single aspect of the Magnitsky case, we brought it to law enforcement. We brought it to the National Crime Agency; they refused. We brought the company formation agents that were involved in forming the companies during the stuff connected to the Magnitsky case to HMRC. They never shut down a single company formation agency, even though they regulate them.

Nobody brings any cases at all. There are three possible reasons. It could be the reason I have just stated, which is the most charitable one: that there are economic disincentives. I could also say "incompetence", but I don't want to say that, or I could say "corruption", but I am going to stick with the fact that the economic incentives are not there for them. Whatever the reason is, this country should be ashamed of itself. It is an absolute shame, and nothing will change from this law unless there is actual law enforcement. What can we put in place so that the laws are enforced? At least get rid of the economic disincentives.

I will add one more thing, which is that in countries like the United States, if the Department of Justice wins a forfeiture case, they get the money and then they can fund future investigations from that money. When you are talking about a budget of the prosecution service being several billion pounds, you win one big case and you could fund the entire prosecution service.

Q143 The Chair: Mr Bullough, do you want to answer those questions as well?

Oliver Bullough: I agree with Bill that the UK has a shameful record when it comes to its failure to investigate and prosecute financial crime. I would add, however, a fourth explanation to Bill's list of potential reasons why that is not happening. For many years or perhaps many decades, there has been a belief in Britain that making things as simple as possible is good for business—the idea that it is simple and cheap to set up a business and better to have less regulation than more regulation is invariably good for Britain's business climate.

Alison Thewliss mentioned Scottish limited partnerships earlier. We saw this phenomenon when Scottish limited partnerships were discussed in the House back in 2017 after the exposing of the Moldovan laundromat. There were suggestions by her colleague then—the SNP's Treasury spokesman, Roger Mullin—about trying to tighten up the rules around SLPs, but they were torpedoed by the Treasury because of concerns that that would lead to investment funds having to spend extra money on meeting regulations.

I believe the estimates for each fund would be between £14,800 and £27,600 per investment fund. That is the cost supposedly to the UK economy. If you compare that to the cost of fraud to the UK economy, which is estimated by the University of Portsmouth at approximately £130 billion, you see how absurd it is to be worried about saving £14,800: we are faced with a problem that is costing us more than £100 billion.

The cost of fraud, which is rampant—40% of known crimes—is a huge tax on businesses and individuals in the UK. It is made possible by the fact that we have been failing for so long to do anything about economic crime. If you look at that quantity of fraud, as estimated by the academics in Portsmouth—there are higher estimates—it is equivalent to about a fifth of the total tax take. It is like adding another VAT to the UK economy, or twice as much again as all taxes levied on corporations. That is the cost of economic crime on the British economy.

There has been a philosophical failure to realise that making things easy is not always good. At some point, you are making things so easy for criminals that you are essentially making things difficult for honest people. In this case, by adding regulation we will be deterring criminals and therefore making things easier for honest people. That is something that, for far too long, people in public life in the UK have failed to realise.

I am here talking only about the effect on the UK. On top of the cost of fraud to the UK, hundreds of billions of pounds are laundered through the City of London every year; that is the National Crime Agency's estimate. It clearly a guess—a round number—and it could be more; it could be less. That is money being stolen by criminals, drug traffickers and kleptocrats, and laundered through the UK. They are keeping this money. Essentially, it is being taken away from good people and kept by bad people. If we could stop this happening—instead, confiscate the money and keep it for ourselves or return it to the people it is taken from—it would be what is called in rugby a 14-point swing. We would be taking it away from one team and simultaneously giving it to the other one.

I agree that the three suggestions that Bill made for why the UK has been so bad at fighting economic crime are all possibilities, but my favourite fourth one is that we have been simply philosophically failing to understand why economic crime is a problem. This Bill is a real opportunity to do something about that. I was listening to some of the earlier panels; I would like to second what was said by almost everyone, which is that a new law is very good, but a new law is definitely not enough on its own. We need far more resources for Companies House, the National Crime Agency, the Met, the City police, the Serious Fraud Office and all the police agencies to be able to use this Bill.

As I understand it, the funding per officer at the National Crime Agency is estimated at one third of their counterparts at the FBI. Leaving aside the fact that there are far fewer of them, just per officer they are funded at a third of the level of the FBI. If we want them to be able to do the same job that the Bill is talking about, and that American prosecutors and investigators are able to do, we need to fund them adequately. We should at least be funding them as well as their colleagues at the FBI if we want them to be able to do as good a job.

Q144 Jackie Doyle-Price: It is partly about powers and laws. It is partly about resource, but fundamentally it is about the behaviour of the regulators. Mr Browder, some of the things you alluded to earlier would be about informing those behaviours. Coming back to the extent of laundered money that goes through the City of London, to what extent do we need to make sure that we are driving behavioural change within the institutions through which these monies are being routed?

Bill Browder: People are very simple: they operate on the basis of rewards and punishments. There are big rewards for people in the City of London to launder money. Banks make money off transactions and accounts and so on. Company formation agencies make money off selling directors and forming companies. Lawyers make money setting up these structures. There is no consequence if they are involved in in dirty business—none. Nobody faces any consequence.

What we have just seen at Companies House is remarkable: thousands of companies being registered for no commercial purpose other than to launder money. These companies then set up foreign bank accounts. We

know who the directors are. Some of the directors are UK citizens. The company formation agencies are UK company formation agencies. We report it to the police, and nothing happens. If nothing is going to happen, then you are not going to change the culture.

America has the Foreign Corrupt Practices Act. Most American corporate executives do not want to be prosecuted and therefore do not make bribes abroad. Austria does not, and so they do. We are in a situation where there is no consequence for doing any of this type of stuff. It does not matter what is written in this law; it does not matter what was written in the previous law. There was a great law passed called the unexplained wealth order. It is a beautiful law, which solved a huge problem, which is not having to get evidence from the bad guys in the kleptocrat countries, and just using the evidence that we have here. We have used it in four or five cases, and most of the cases have actually been on behalf of dictators going after their enemies. We have a total failure of law enforcement. It probably should be studied as a separate issue: why is law enforcement not doing its job? Why is it failing?

You can write as many great laws as you want—there is some good stuff in this law, and good stuff in the previous laws—but if no one is going to enforce it, then you are never going to change the risk-reward and people are going to carry on doing stuff. All this will continue, and I will sit here 10 years from now making the same allegations about how this is a centre of money laundering.

Oliver Bullough: I would like to agree with everything Bill just said. People are more or less rational: they act according to their incentives. We can try and change the culture in the City of London as much as we like but, essentially, if there is no prospect of being arrested, prosecuted and jailed, or at the very least given a large fine, for committing these kinds of crimes, then someone will always be available to commit them because the reward will be sufficiently large and there will be no downside.

I gave a talk to a school a couple of years ago. One of the kids had been sitting silently throughout, and he put his hand up and asked me at the end, "Yeah, Mister, if you know all this about money laundering, why don't you just go and do it?" I still do not really know the answer to that question, because there is no real reason not to do it. It is a gimme of a crime. You are 99.9% likely to get away with it.

What is particularly frustrating is that when we have prosecuted fraud and put resources into prosecuting fraud, it not only pays for itself, but is a huge profit centre. We saw that from Lord Agnew, who ran a small anti-fraud office from the Cabinet Office during the covid pandemic. He had a small anti-fraud budget that returned tenfold the amount of money that was paid. It is a complete no-brainer to go after this money and these crimes. We would be benefiting the country in every way.

I agree with Bill; it is very frustrating to hear talk about changing culture, when what we really need to do is to change people's incentives. The way to do that is to enforce the laws that we have.

Q145 Tom Tugendhat: Mr Browder and Mr Bullough, thank you very much for coming. We have spoken about these issues at the Foreign Affairs Committee, which I used to chair. In the past, we have consistently covered the need for transparency. I hope you will agree that the Bill demonstrates a desire to be much more transparent. I hope you will also agree that many of the anti-money laundering provisions go much of the distance towards addressing the concerns we have raised in the past.

We will be listening for further ideas in the future, but do you agree that the Bill at least sets out the first steps to where we really do need to be going to make sure that the crimes begin to be prosecuted? Just to answer your question, Oliver, the reason you do not launder money is that you are and remain a person of integrity; sadly, you are not very rich for it, but there you go. That is the price.

Bill Browder: I have never had any trouble with the laws as they are written here. We probably do not even need this. It is a great law—congratulations; I applaud you on putting it together. It is 252 pages of mind-numbing stuff—

Tom Tugendhat: Of detail, Bill!

Bill Browder: It is great. There is no problem with the actual legislation. This is a rule-of-law country, and the laws have been written, and continue to be written, very well. There is just a huge disconnect between that and the enforcement.

I would add one little detail, if you want to get into the nitty-gritty. We have seen that UK companies are used abroad to set up accounts—this was mentioned by Dr Susan Hawley and perhaps one other—because it looks legit to have a British company with a Cypriot or Latvian bank account. Somehow, when you get a transfer from a British company with a European bank, everything then—that is how these people get away with it.

I would therefore add one small provision to this law, which is easily done. When people are setting up their companies, they should have to disclose, on an annual basis, where they have foreign bank accounts. If you were to do that, then every anti-corruption investigator could go around and start looking at that. I do not think that it is a huge additional disclosure requirement. People have to disclose their income, expenses and so on, so why not disclose where they have bank accounts?

Q146 The Chair: Mr Bullough, do you want to join in on that?

Oliver Bullough: I think it was Samuel Johnson who said, about a dog walking on its hind legs, that

"It is not done well; but you are surprised to find it done at all."

I am happy that the Bill exists; I was happy that there was another one earlier in the year. I would prefer it, however, if Parliament sat back and, instead of passing two fairly minor economic crime Bills in one year, put them together into one with all the other things that desperately need doing, take a long time over it and, when passed, really ensure that the law, as passed, is enforced.

Bill mentioned unexplained wealth orders. Those were a fantastic idea—perhaps hugely overhyped when they were brought in, but a great idea—and a real potential silver bullet for tackling top-end economic crime by both organised criminals and kleptocrats. Sadly, after

the failure of the case against the daughter of the former President of Kazakhstan, they have not really been used at all. That is because the National Crime Agency does not have the money it needs to do the job, and that is because politicians have not sufficiently prioritised fighting economic crime. That is where the money comes from.

Yes, by all means, it is good to have another Bill, but I would far prefer to see the existing laws properly enforced by properly-resourced law enforcement agencies with continuous political support than have another Bill. I say that as someone who has been banging on about the problems with Companies House for absolutely ages.

Q147 Dame Margaret Hodge: I would say, Oliver, that we need both. It is not an either/or, and if we can amend the Bill with even more powers, we can hopefully get even closer to that.

I want to deal with another issue, since you are both Russia experts. There is a mood across the House to tackle the issue of seizing Russian assets as well as freezing them. I know that you have both been working in that space, so could you comment on that? How do you think it could be done, do you think it is a good idea and how much is at stake, to the extent that any of us know the figures?

Bill Browder: Shall I go first, or do you want to, Oliver, since I have been hogging the first response?

Oliver Bullough: No, Bill, you can go ahead.

Bill Browder: We are on our third Prime Minister in seven weeks; there is an economic crisis going on; the purse strings are tight. There will be pressure here not to send as much money to Ukraine because we are worried about our money at home. There is also pressure in the United States. Some 30 Democrats wrote a letter to Biden saying, "Let's just settle this thing and give the Russians what they want"—or something along those lines—"and not spend this money." There is also pressure from the Republicans on the other side, saying, "No blank cheque for Ukraine".

We also cannot let Ukraine go, under any circumstances, because, if we do, Vladimir Putin will be knocking at the door of Estonia or Poland. Therefore, how do we pay for it? Ukraine needs the money and the military equipment. Well, let us let the Russians pay for it. It is a simple thing: the Russians have started this war, created all this conflict, caused all this destruction and killed all these people, and we have $350 billion of their central bank reserves frozen, as a first step.

Why are we not using that money to support the Ukrainians? There are people who say, "That's never been done before, and therefore we shouldn't do it." I would argue that it is pretty straightforward. In Parliaments around the world, what do you do? You make laws. If it has not been done before, make a law so it can be done. It is not a legal issue; it is purely a political issue. Should we dig into our own pockets, or should we let the Russians pay for their own war? We should start by letting the Russians pay for their own war.

I am having the same conversations elsewhere. I was just in Canada, speaking to the Canadian Parliament, last week, and I have been speaking to the US Congress. It is a no-brainer. It is a more complicated issue when you start going to the oligarchs, because you have to prove that somehow they are connected to the Government. But when it comes to the Government themselves, $350 billion is being held right now by the UK, the EU, Canada, the United States, Australia and Japan. That is an easy way to solve this financial problem and help the Ukrainians win this war.

Oliver Bullough: I would like to add to that. One of the reasons why it is complicated to take money away from oligarchs is that, once the money is here, it benefits from the rule of law that we have and so on. It is always harder to take egg out of a cake once it has been baked. It would have been a far better idea not to allow the money to come here in the first place. The lesson I would like to see learned from the current Ukraine crisis is that it is far more cost-effective and efficient not to allow kleptocrats to launder their money through the UK in the first place. If we do not support kleptocratic networks, those networks will not survive. They will not be able to come to such strength and vitality that they threaten their neighbouring countries.

Yes, it is important to confiscate Russian money to return it to Ukraine. Yes, it is important not just to freeze but to seize oligarchic property. But it is also important to put in place the powers, and particularly the law enforcement structures, that we need to prevent more kleptocrats from coming here. Next year, it might not be a threat coming from Russia; it might be a threat coming from China or somewhere else. We would find ourselves in exactly the same situation: trying to work out what to do with money that we had frozen when, if we had not allowed it here in the first place, we would not even have to have this discussion.

Q148 Dame Margaret Hodge: I think we all share the frustration that there are existing powers, and hopefully a few new ones, and they are just not implemented. We have discussed whether that is because of a fear of costs coming back to us, or because of the lack of funding for the enforcement agencies.

Let me put to you another issue. If we strengthened accountability, those working in the Executive agencies might work a little harder at putting into effect the laws that we parliamentarians pass. Bim Afolami has an idea of establishing a Select Committee of the House that would look at the regulators—the enforcement agencies—and could ask for individual cases to be heard by the Committee in private, to see whether there are systemic issues at play, which could lead to public reporting on those issues.

That is one idea. There are others around. Do you think the lack of accountability, particularly for the enforcement agencies, could be a contributing factor to the fact that we just do not do enough—that we do not use our existing structures enough—even without the money and even with the cost issue?

Bill Browder: I think so. This is not the first time I have had this conversation with Members of Parliament. I have been in front of many Committees—the Home Affairs Committee, the Foreign Affairs Committee, this Committee and others—to talk about this lack of enforcement, and I have talked with many Members of Parliament. There is no disagreement with me. Every political party supports the idea of not having London be the money laundering capital of the world. I think everybody agrees. Many good Members of Parliament have put pressure on different Governments, put questions to them and had conversations, and I have seen many Government Ministers agree. Then, all of a sudden, we

get to this total disconnect: law enforcement cannot be instructed by Parliament or the Government to open or pursue a criminal case or explain why it has not done so. It is living in its own world.

The only thing the Government can do is replace the people in executive positions in law enforcement; that is the only sanction. There has to be a better way. There are arguments about not wanting to politicise law enforcement and I totally sympathise with those, but at the same time if it is completely failing it needs root-and-branch reform—whether parliamentary oversight, Government oversight or some other mechanism. It is just failing and it has continued to fail in a way that is totally unacceptable. I would hate to be sitting here a decade from now having the same conversation.

Q149 Alison Thewliss: Can I ask Oliver first whether the Bill could do more to deter the abuse of UK corporate structures such as limited partnerships, including Scottish limited partnerships, and shell companies? What more would you like to see in this area to deal with this issue? In your book, you talked an awful lot about the use of such structures for property and other things. Can more be done here?

Oliver Bullough: It is probably fine. Hopefully, if things are actually enforced and Companies House is given the money it needs to do the job and it is ambitious about that, this may work. Personally, I would like the threshold for a person with significant control to be reduced significantly: perhaps to 10% or 5%. Perhaps there should not be a threshold at all, but if you control you need to declare it.

The Bill is potentially an improvement. I still do not think it is the kind of root-and-branch re-evaluation of Companies House that we need. An amazing variety of corporate structures are available in this country. I do not think anyone has stopped to say, "Do we really need limited liability partnerships and limited partnerships? Why do we have both?" Does anyone stop to think about why they exist at all? Limited partnerships were created as a bit of a strange afterthought back in 1906 anyway. Why do they even exist?

I would like to see discussions like that, personally, but as it stands I think that bit of the Bill is probably okay—certainly if it is enforced properly. If there were an Oliver Bullough-ocracy, there would be all sorts of different changes to how companies could be used. I would not allow people to use foreign companies to own UK property at all; you would have to own it via British companies if you wished to use a company. But that is not going to happen so it is silly to talk about it.

On Margaret Hodge's point, in the Oliver Bullough-ocracy I would definitely like to have something similar to the Senate's Permanent Subcommittee on Investigations, with the power to investigate whatever it likes and do really forceful, well resourced investigations into Government agencies or anything at all. That would really help to cut through some of the failures to understand why the failures are happening and to really bring accountability to these bodies, which have been able to hide behind the lack of oversight for a long time.

Q150 Alison Thewliss: What more would you do to tighten up the company verification scheme proposed for Companies House? Would you put in place more measures to make sure that those registering companies were real people at real addresses?

Oliver Bullough: I heard the Companies House official talking earlier; I did not join at the beginning so I did not catch his name. He was saying that there would be difficulties with resourcing the verification of all that, particularly when it comes to the issue I wrote about recently in my newsletter, about what I call "offshore shell people"—people essentially acting as a kind of shell company. It is noticeable that while the number of offshore companies owning property in the UK has flatlined over the last decade, the number of people with overseas addresses has increased by 250%. Clearly, scams can always be used and things are always coming in. Making sure that Companies House can have the resources to do all that is a tough ask.

This is perhaps stretching way beyond what is in the Bill, but I am not sure that it would not be a good idea to have what the British Virgin Islands has, which is that an ordinary person cannot just file things with Companies House; they have to go via a lawyer or another registered professional. I am not sure that that would not be a bad idea, because then you would not have this issue at all of people being able to log on.

Just to show how absurd it is, I was at a conference the other day and a participant from Canada could not believe me when I said how easy it is to file things at Companies House, so we logged on together and she created a company then and there. She is a tax consultant; there was no "tax consultant" option on the dropdown menu, so she called herself a taxidermist. That is how absurd the system is. There is a lot of scope for improvement before we need to worry about fine-tuning the details.

Q151 Alison Thewliss: Thank you. Bill, is there anything that you would like to add about how Companies House is being abused and what could be tightened up there?

Bill Browder: One of the things we have seen is that the same individuals—these money launderers—will find a drunk Latvian person, get their passport and then register them in hundreds and hundreds of companies. If those companies get shut down, then they can register them as the directors of other companies; they then become directors of those companies.

Why is it okay to have a person be a director of 400 companies? That does not make any sense to me. Why should there not be some limitation—maybe 10? Ten companies is a lot of companies—but 400 companies, or a thousand companies? That limitation would be an easy thing to put in here, and that would make it harder for the criminals, because there are not that many people who are ready to give up their passports to do money laundering. The number of people who are involved in this is quite small when you actually look at it, because most people do not want their names being used for these terrible schemes.

Q152 Alison Thewliss: You also have multiple companies —in the hundreds—registered to single addresses. Would that also be an issue that you would like to see tackled?

Bill Browder: In theory, yes. This whole post-box idea just lends itself to anonymity and so on. Why do people not just register their companies at their own home or their own business address if there is a legit company? What is this business with 2,000 companies in one strange industrial park in Glasgow?

Q153 Alison Thewliss: And Scottish limited companies have been used for various—

Oliver Bullough: I did an investigation a while ago and there was a woman who was a director of four companies, I think, despite the fact that she had been dead for five years. Clearly, someone had been using her signature to sign off on the companies, and that is clearly a misuse of information. Clearly, that is falsifying company information and is already a criminal offence. Despite the fact that I had written about it, nothing was done; no action was taken. As I say, there are a lot of easy wins here before we need to worry about the details.

Q154 Alison Thewliss: I want to ask about Scottish limited partnerships, the implication being that they are used in sanctions-busting and various other things to do with the war in Ukraine and Russia's activities around the world. Does that misuse cause a reputational damage to the UK and to Scotland?

Bill Browder: Well, Scotland is so dwarfed by London that you do not have to worry about your reputation, because the reputation is so bad here that no one will even be paying attention.

Q155 Seema Malhotra: Coming back to law enforcement, the Bar Council has suggested that the new regulatory objective that the Bill will add to the Legal Services Act 2007, focused on promoting the prevention and detection of economic crime, is incompatible with barristers' duties and may confuse the role of lawyers. What is your view on that?

Bill Browder: I have written a whole book about this. The bad guys in Russia are a big part of the problem, but you cannot export this type of corruption and money laundering unless you have somebody doing the importing. And who is involved in the importing? It is the western enablers—the lawyers.

I have had shocking experiences with western law firms that are benefiting from this. If there were some kind of duty whereby they had to actually look into the source of their funding or the legitimacy of the business, I think that would be an extremely powerful thing, if it was actually enforced. There is a whole other long discussion of law that one could have about the role of western enablers, and particularly the lawyers.

The Chair: I am afraid that under the rules that we operate on, I have no discretion to allow this very interesting sitting to continue, so we have to finish. I thank both our witnesses for a really fascinating sitting. Their great insight and knowledge on this subject has been of immense value. Thank you very much indeed.

Dame Margaret Hodge: On a point of order, Sir Christopher. May I ask whether our proceedings are covered by parliamentary privilege?

The Chair: The answer to that is yes, they are, but it should not be abused.

Examination of Witnesses

Professor John Heathershaw and Thomas Mayne gave evidence.

4.30 pm

The Chair: We now come to the ninth panel. We have Professor John Heathershaw from the University of Exeter appearing via Zoom and Thomas Mayne from Chatham House. Good afternoon. I am going to ask Professor Heathershaw, first, to introduce himself briefly.

Professor Heathershaw: My name is John Heathershaw. I am professor of international relations at the University of Exeter. I work on aspects of money laundering related to post-Soviet political elites.

Thomas Mayne: I am Thomas Mayne. I am a research fellow at the University of Oxford and a former visiting fellow at Chatham House. I am one of the authors of "The UK's kleptocracy problem", a report we released at Chatham House in December.

First, by way of very quick introductory remarks, on the day we launched the report, the then Foreign Secretary, Liz Truss—how time flies—was also speaking. That was a nice coincidence. She was asked about our report and her response was that the UK has the strongest money laundering regulations and laws in the world. As we have heard today, we could debate whether that is true or not; there is some evidence to suggest that it is. However, as we have heard a lot today, without enforcement, laws are useless.

Secondly, I am an expert in kleptocracy and anti-corruption measures. Kleptocracy and money laundering are two slightly different things, and I hope we will get into some of the differences today.

Q156 Seema Malhotra: Thank you for coming to give evidence to us. I have two questions for the panel. First, we have heard about weaknesses in the UK's anti-money laundering supervisory system. I think the estimate from OPBAS was that last year only 15% of supervisors were effective in using predictable and proportionate supervisory action. To what extent do you think the Bill is bridging the gap to where we need to be? In your view, how do we compare with our allies across the world on this matter?

Secondly, would you expect kleptocrats, in the light of this regulation, just to move their assets to unregulated sectors? Are we going to have the protections we would want for Britain, or are we in danger of seeing some of the behaviour simply displaced?

Thomas Mayne: First, on supervision, I do not think there is enough in the Bill. The findings of OPBAS—that the risk-based approach we have put in place really is not working—are quite shocking. What is the solution to that? I know that Dr Hawley was here earlier; Spotlight on Corruption has just released a report on the supervision of the legal sector. There is a debate in that on whether there should just be a single sector supervisor, which is something we should look at.

Generally, I think supervision is lacking and it is very uneven. Across sectors, we are seeing very different layers of enforcement actions. For example, I think the Council for Licensed Conveyancers—obviously, it deals with real estate, which, as we know, poses some of the highest risks for money laundering—produced zero enforcement actions in a three-year period. There are varying levels of not only supervision but enforcement activity. That is definitely something that we should look at that is not really in the Bill. John, do you want to say anything on that question, before we move on to the second one?

Professor Heathershaw: I think the accountability question pertains to parliamentary supervision of those regulatory agencies. As I understand it, there is nothing in the Bill to enhance that. There would be scope for a specific cross-departmental parliamentary Committee

in this area, I think. As we know, money laundering crosses different Departments, so greater accountability for poor performance by the supervisors could be tackled through that kind of oversight.

Thomas Mayne: Was the second question whether we are worried about capital flight from the UK?

Q157 Seema Malhotra: No, it was to ask whether, unless we perhaps look at making other sectors regulated, you would expect kleptocrats who are abusing our economy to just move their assets in the light of this regulation, if it starts to make it harder, to unregulated sectors. Some of that could be unregulated sectors of the crypto economy, and it might be other sectors as well.

Thomas Mayne: That is certainly a risk. We are way ahead of the game, in some respects, in terms of which businesses we regulate. I know that there is an ongoing discussion about whether PR agencies should have regulation. I am not an expert on crypto, but I think we should look at bringing it into the existing regime where, if there is a suspicion of money laundering, you have to report it by law.

Professor Heathershaw: To add to that, it is not simply a matter of liquidating assets to move them into other denominations or unregulated sectors. The nature of money laundering is that it is a social and political phenomenon as well. It is about achieving a place to stay where you can protect your assets through the rule of law, and maybe gain some social influence, get your kids into school, and use your residency to garner a wider profile and clean up your reputation. That means that the property and bank accounts are hugely important; they will not just be liquidated overnight.

When we are talking about the kind of money laundering that Tom and I look at by political elites and those from kleptocracies, they are seeking to gain a whole set of goods that you cannot simply get through putting all your assets into crypto, or into a more loosely regulated jurisdiction such as Dubai. There are certain things that the UK, and London in particular, offer that will not simply fall out of the way in a beggar thy neighbour, "Well, we'll just move ourselves into a sector or jurisdiction that is loosely regulated," way. I do not think that that should cause us to worry about losing market share, or the problem shifting into another sector, because the problem will always remain in the legal and regulated sectors that are our principal concerns. They will always be there, too.

Thomas Mayne: I have one thing to add on real estate. We now have the registration of overseas entities as part of the previous Act. It will be fascinating to see what happens in January, when the deadline comes in, with the existing properties that we know are owned by oligarchs or kleptocrats, and what kind of information they put on record. It is not a magic bullet. One problem with the ownership of property is that we will not, and should not, have a searchable database where we put in somebody's name and see whether they own a property in the UK. It does not work like that, so there may be other properties that are perhaps owned by proxies. Those proxies will have their name on record as the so-called beneficial owner, but they will not be discoverable because we do not know about them, and we do not know that proxies are being used. What will be interesting is, as I say, what information will be revealed about the properties that we do know by January.

Q158 Jackie Doyle-Price: Mr Mayne, you have endorsed what we have heard from the previous panel and to some extent the one before that, which is that rules are one thing, but that unless we enforce them, they are meaningless. You said that in the context of money laundering. In the Bill are quite significant reforms to Companies House and limited partnerships. To what extent are they important tools in the armoury, if your starting proposition is that enforcement is the weakness?

Thomas Mayne: Transparency is incredibly important. We know that, and we know that what has happened to Companies House in the past 15 years is ludicrous. We have heard examples of that today. We are one of the first countries in the world to have a beneficial ownership register, and I think that the Bill will take us to the next stage in verifying the information that is put on to Companies House, but, as Dr Hawley said earlier, will we still be able to rely on that information? There is also a risk that it just becomes another layer of what we might call zombie transparency. We have all this data, but so what? If it does not lead to enforcement actions or to people who are breaking the rules and submitting false information being penalised—sanctioned, fined, jailed—it will be all for naught. It needs to be accompanied by robust enforcement action. We have heard that from many speakers today.

Q159 Jackie Doyle-Price: But it will provide the foundations for that.

Thomas Mayne: Absolutely. If we take the PSC register, which has been in for a few years now, we can point to that and say, "This person has to be the controller of that company. Why is this person living in a shed in Siberia when £100 million is going through their company?" Before the PSC register, we could not say that. Now we have verification procedures coming in, we should be able to say that somebody at least—Companies House or whoever—has checked that this person is real and is the person they say they are, in terms of the information submitted to Companies House. We should definitely have this, but it is only the first step.

Professor Heathershaw: To emphasise that point, we know that even where there is transparency—even where we know the money is going—there is an enforcement gap. For example, Tom and I obviously work together, and we have provided your Committee with two of our most recent reports: one on unexplained wealth and one looking comparatively at the Dariga Nazarbayeva and Zamira Hajiyeva cases, in which we demonstrate that the reason why one failed and the other succeeded was simply the incumbency status of the two. The one who remains in power, has a good relationship with the law enforcement authorities back home and has privileged access—one might argue, an unfair advantage there—is able to defend themselves against that measure.

Unfortunately, the UWO reforms that came through earlier this year in the Economic Crime (Transparency and Enforcement) Act 2022 do not fit that part of the problem. It is also part of a bigger problem. When we look at our dataset of £2 billion-worth of properties in the London and the south-east—included at the end of the Chatham House report, the blue one that you should also have—we find that the 73 cases of incumbents, the people who remain in good favour in the kleptocratic states from which they come, get to retain their properties, but 13 out of the 15 cases of exiles, of those who have

fallen out of favour, lose their properties. That is not explained by exiles being more corrupt and incumbents less corrupt, so there are problems there around enforcement.

That means, effectively, that however much transparency we have, the measures that are being adopted are not really introducing rule of law at all, because what determines the outcome for people—whether they get to keep their property—depends on whether they are in political favour back in the kleptocratic state. That is a real indictment of the way in which the UK system has hitherto functioned. It shows the limits of what transparency can achieve. As Tom mentioned, with this Bill the UK will be a gold standard of transparency across the world, but it will still lack in terms of accountability and enforcement. That is the real challenge.

Q160 Jackie Doyle-Price: So transparency will have no teeth without greater focus on enforcement.

Thomas Mayne: Yes.

Professor Heathershaw: Yes, I would agree with that statement entirely.

Q161 Alison Thewliss: I will pick up on a couple of the recommendations from the "The UK's kleptocracy problem" report. You were calling for the investigation of and penalties for those who submit fraudulent information to Companies House. Would you like to see Companies House doing that retrospectively with the new powers that they take, by actively going back through that register to prosecute people who have submitted fraudulent information in the past?

Thomas Mayne: I think so. Where do you cut it off? It certainly should if there have been large-scale, egregious actions. Oliver mentioned somebody registering companies in the name of a dead person, and I found an example of that in an investigation years ago. People should be penalised for really fraudulent misuse and prevented from registering companies again in the future.

Q162 Alison Thewliss: Should there be limits on the number of companies a person should be a director of, or registered at a particular address?

Thomas Mayne: On the point about directors, there certainly should be; it is crazy that you have these people with 1,000 companies. I am not sure on your point about addresses. If you are an investigative journalist or a freelancer and you do not want to register a company with your home address, for example, or if you are the PSC and you have your name on the company, is that enough? Perhaps there needs to be some provision about having an office where you have to physically be and sign your name. I am not sure about the proxy address, but certainly, on your point about proxy directors, limiting the number would be a good idea.

Q163 Alison Thewliss: You talked about persons with significant control and whether or not they are really the person controlling that company. There has been only one fine issued to somebody for not registering a person of significant control for Scottish limited partnerships since that was brought into force. Do you think a lot more needs to be done to interrogate those persons of significant control, and assess whether or not they are accurate and the filing has been done properly?

Thomas Mayne: I think so. Obviously it is difficult with PSCs, because I can say I am the PSC of a company and there could be an agreement written in a safe in Liechtenstein somewhere that says it is actually a Kazakh politician or whoever it may be. Certainly, there are probably egregious examples where it is clear that the person is not the PSC. You can do some research on them. There have been some examples today where there is clear evidence that the person is not who they say they are. Yes, there need to be fines, and the fact that there has been only one so far again goes to the point on lack of enforcement over fraudulent information submitted to Companies House.

Q164 Alison Thewliss: You talk in the report about AML controls. Would it be useful to have Companies House be an anti-money laundering supervisor in its own right?

Thomas Mayne: Possibly; maybe that would overburden it. There are already talks, with the verification coming in, about ramping it up.

Q165 Alison Thewliss: In the sense that the trust and company service providers and other supervisors are not doing their job properly, so that would stop those who are registering directly.

Thomas Mayne: It is an option.

Q166 Liam Byrne: One of the ironies of this Bill is that it is called the corporate transparency Bill, but it says very little about two kinds of people who maximise corporate transparency. One is whistleblowers and the other is journalists, or indeed writers of think-tank reports. That is a shame, because we have courts in this country that are being systematically used by rich individuals to silence journalists and sometimes think-tanks. I can speak under privilege in this hearing, so I can talk about Dmitry Leus forcing Chatham House to amend one of its reports, and I can talk about Chatham House agreeing to that because it did not want to confront the legal bills entailed in going to court with Mr Leus. If we are serious about corporate transparency, should we not be introducing anti-SLAPP measures that would enable a judge to throw out a case that was transparently focused on trying to stop people revealing the truth?

The Chair: Before you answer that question, is this question directed to that action in relation to measures in the Bill? I hope it is, because otherwise it will not be in scope.

Liam Byrne: Yes, it is a gap in the Bill.

Thomas Mayne: Absolutely, and many thanks for bringing up the case. As you mentioned, none of the authors had any say in the matter and we did not think it was justified, as the evidence we put in the report is entirely accurate. This is a perfect opportunity for some kind of anti-SLAPP legislation to be put in the Bill. Dame Margaret spoke at a recent debate with David Davis; some other examples were given there. If we do not put it into this Bill, will it just be mothballed and we miss our chance? Meanwhile, more journalists are being threatened, and a lot of information is not being put into the public domain because of the threat of a SLAPP. The Bill is related to transparency, as you say, so is there an opportunity to put that sort of measure in the Bill?

Professor Heathershaw: Obviously, I would agree with that. Our report has been subject to these issues. We have also seen many threatening letters over the years. I think it is fair to say that we are some of the leading researchers in the UK on this specific area, at some of the UK's leading universities. Professionally, it is shocking for me to find that we could be subject to such aggressive letters. The risks were so great, simply because the costs could not be limited.

I think there is a need to introduce a merits test early on to dismiss litigation. I think there is also a need to cap the costs for defendants, because at the moment you have to get very expensive libel insurance to protect yourself, which can be very difficult. Even then, there are huge costs involved.

The question about whether there should be specific legislation from the Ministry of Justice is interesting. At present, that has not been tabled to Parliament and so the opportunity that presents itself—to amend Bills, to provide certain measures, to introduce costs—would definitely be within scope. When you see these cases, many of the people from outside a Government service who have given evidence today—I am sure Oliver Bullough or Bill Browder would speak to this themselves—have been subject to those actions for things they have written that are entirely accurate and in the public interest. In that sense, such a measure is within scope.

It is also within scope because money laundering of this type is always accompanied by reputation laundering, which means seeking to clean the public record of questions about your sources of wealth and misdeeds of the past. It is very much within scope and it would be great for the Bill to consider things like a merits test and a cost cap for defendants in defamation counter-claims.

Q167 Dame Margaret Hodge: Can I follow that up? I am grateful to Liam for raising this point. I think it is in scope. The case in relation to Chatham House is shocking, because of the cost to you as an organisation, which you will have to bear personally. It is particularly concerning that in the case of a journalist like Catherine Belton, whom we are seeing on Thursday, six or seven attempts were made; Charlotte Leslie, who was a Member of Parliament, is also being challenged, as are existing Members of Parliament. You are the experts on kleptocrats. This reputation cleaning, or protection of reputation, that they go in for, is an element that we had not really studied in detail before, until it all hit us individually. Do you have any other ideas? We think it is within scope of the Bill. We think there are clauses that have been developed that could quite easily be added. Is there any other action that you think we should take?

Thomas Mayne: I mentioned earlier the PR industry. I think there is a debate going on, following the Russian invasion, about whether there should be transparency over who you represent. Should it be put on record and in what sense? There are membership organisations in the PR world, but you do not have to sign up to them, so there is an internal discussion going on about whether that should become mandatory. Do you somehow put PR under the scope of money laundering regulations? Maybe that is going too far, but some kind of oversight and transparency of such PR agencies, who sometimes represent the kleptocrats and use their wealth to threaten journalists, should certainly be considered.

Professor Heathershaw: It is my understanding that there was a consultation on a foreign influence registration scheme under an earlier, different Home Office Bill. That is where you may have something equivalent to what the US has in the Foreign Agents Registration Act. If you are looking specifically at kleptocrats linked to foreign regimes, or who are themselves part of foreign regimes, PR agencies are working on their behalf to clean their reputations, potentially in a wider public realm with public institutions, and, of course, to specifically target Government officials to potentially donate to political parties—a non-British citizen can do that while retaining overseas citizenship.

Those things would be in scope of a foreign influence registration scheme. Again, that crosses over into the territory of the Bill. It has previously been proposed as part of another Bill, but I think it is very much needed for the PR industry.

Q168 Dame Margaret Hodge: Under privilege, Liam Byrne, David Davies, Bob Seely and a whole range of us have raised issues of kleptocracy not just in Russia but in other jurisdictions such as Azerbaijan and Kazakhstan, on which I have had debate—I think Liam has probably had debates on other areas. It is very frustrating that only under parliamentary privilege can we get a public airing of some of the examples of individuals stealing money from their people and then laundering it in other jurisdictions to buy themselves football clubs—as someone said—houses and other things. Have you any ideas about what legislative action we could take to support more public debate on these issues and to give voice to those deep wrongs, rather than having to hide behind parliamentary privilege?

Thomas Mayne: That is an excellent question; I am not quite sure how to answer it. As researchers—quite akin to journalism—we all play a game of self-censorship in what we say. Even when you have information about donations from people from overseas—kleptocrats or oligarchs—that is certainly in the public interest, there is always a tendency to draw back and not put it in the public domain. If there were some other forum that allowed that information to be put there without the legal threat, that would be fantastic. At the moment, we rely on you as MPs to bring to certain issues up under parliamentary privilege, because the way the libel laws are set up in the UK is stymieing that kind of debate, which needs to be able to continue.

Q169 Dame Margaret Hodge: Are there any international examples of that working better, or is everybody as constrained as we are?

Professor Heathershaw: On the Chatham House paper, two of our authors are Americans, and they have a first amendment right. They think the situation that has arisen with respect to Chatham House is extraordinary and absurd. You could have a first amendment right in some kind of British Bill of Rights, which has been mooted in the past. In terms of academic and journalistic freedom, you could have a specific statement setting out that anything within professional competence that is evidence-based and without malice is counted as free speech.

I think there is obviously a need to revise the Defamation Act 2013 to say that, unless you can determine that a statement has been made with malice, and if it is within professional competence and accurate, it should not even

be considered admissible as a potential case of libel or defamation. As researchers, our work goes through ethics committees—

The Chair: Order. I am afraid I have to stop you there. I have no discretion to allow you to continue because under the rules set for the Committee, the sitting has to end now. I thank both our witnesses very much for coming along and helping us with our inquiries.

Ordered,

That further consideration be now adjourned.—*(Nigel Huddleston.)*

5 pm

Adjourned till Thursday 27 October at half-past Eleven o'clock.

Written evidence reported to the House

ECCTB01 R3, the insolvency and restructuring trade body

ECCTB02 Encompass Corporation

ECCTB03 British Private Equity and Venture Capital Association (BVCA)

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Third Sitting

Thursday 27 October 2022

(Morning)

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not later than

Monday 31 October 2022

The Committee consisted of the following Members:

Chairs: Mr Laurence Robertson, † Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
Doyle-Price, Jackie *(Thurrock)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Huddleston, Nigel *(Lord Commissioner of His Majesty's Treasury)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, Tom Healey, *Committee Clerks*

† attended the Committee

Witnesses

Helena Wood, Associate Fellow, Centre for Financial Crime and Security Studies at the Royal United Services Institute (RUSI)

Duncan Hames, Director of Policy, Transparency International

Chris Taggart, Founder and Chief Strategy Officer, OpenCorporates

Elspeth Berry, Associate Professor, Nottingham Law School

Graham Barrow, Journalist and author

Public Bill Committee

Thursday 27 October 2022

(Morning)

[Hannah Bardell *in the Chair*]

Economic Crime and Corporate Transparency Bill

11.30 am

The Chair: Good morning, everybody. We will go into private session to discuss lines of questioning. With the agreement of the Committee, we will delay the end of each panel of witnesses by five minutes, because we have been held up.

11.30 am

The Committee deliberated in private.

Examination of Witnesses

Helena Wood and Duncan Hames gave evidence.

11.35 am

The Chair: I thank Members and those giving evidence for their flexibility in moving rooms, and I inform Members and those giving evidence that we will be in this room all day today. Could the witnesses please introduce themselves for the record?

Helena Wood: Hello, my name is Helena Wood. I am a senior research fellow at the Royal United Services Institute, where I lead the economic crime programme.

Duncan Hames: Hello, I am Duncan Hames. I am the director of policy at Transparency International UK.

The Minister for Security (Tom Tugendhat): Forgive me, Ms Wood; my hearing is not very good. Can you speak straight into a microphone?

Helena Wood: Yes.

Q170 Seema Malhotra (Feltham and Heston) (Lab/Co-op): Thank you very much for coming to give evidence today. I wanted to start by asking about the Bill's reforms of information-sharing provisions—perhaps this is particularly to Ms Wood. In your view, do those provisions go far enough, and if not, do you have examples of where it is done better internationally? If information-sharing provisions are not improved, how much of a hindrance could it be to the effectiveness of the Bill?

Helena Wood: To place it in context, one of Britain's great financial crime exports of recent years has been our joint money laundering information taskforce, which is one of the first public-private partnerships. That model has been replicated across the globe, with public-private partnerships now seen as a norm by the FATF, the international standard setter on tackling money laundering and terrorist financing. In one respect, we really have been a global leader in that regard. However, as with many British exports, we are now exporting that abroad and it is being copied and replicated at a speed and scale beyond what the UK is doing. Increasingly, we are seeing people moving from peer-to-peer information sharing towards a more collaborative data analytics model. I point to the models being set up in Holland and in Singapore as particularly groundbreaking in that regard.

Coming back to the provisions in the Bill, do they get us from where we are now on peer-to-peer information sharing, which is one thing, towards this world of collaborative data analytics, which we need to get to to really home in on financial crime? No, they do not. Although the provisions in the Bill will go some way towards increasing private-to-private information sharing and, in particular, the risk appetite in the banking sector, they really do not keep pace with the global standard.

What we would like in the next economic crime plan, which we hope to see this side of Christmas, is something that is much more ambitious. In many ways, I would say that while it is welcome, the Bill is a slight missed opportunity with regard to information sharing, given that it really does not push forward to this big data analytics model that others are moving towards.

Q171 Seema Malhotra: So your view is that we could be going further, and that we need to be going further.

Helena Wood: Absolutely. We have sat around for three years discussing information sharing in various working groups under the first economic crime plan, and it is a disappointment that all we have come up with is these one or two clauses of a Bill that merely take us towards quite analogue sharing between individual institutions. They do not take us as far as we should go.

I am not saying that at this stage, where that opportunity has been missed, we should push for something within the context of this Bill. These are really complex issues that require and deserve much further public consultation, particularly given the link with data privacy and individual rights of confidentiality, but we must see it in the next economic crime plan if we are not to get left behind. We invented public-private partnership, but we are really not driving that forward in the global context any more: we are being left behind. While this is a welcome step, and it is welcomed by the banking sector, it does not get us to where we need to be in 2025 and beyond.

Q172 Seema Malhotra: Could you be a little more specific about what you think would make a difference—what information is not being shared?

Helena Wood: Absolutely. On the information-sharing gateways that we have in place currently, I particularly point to section 7 of the Crime and Courts Act, which, although being used for JMLIT purposes—this public-private partnership—they were not designed for that purpose. There was an opportunity within the context of the Bill to push for something that really is fit for purpose and gives the regulated sector the confidence to share under a collaborative data analytics model.

We have seen others—I particularly point to the Dutch, who at the moment have some legislation going through, which really gives a lot more confidence to the regulated sector to share. The Transaction Monitoring Netherlands platform allows some of their biggest banks

to share transaction monitoring data at scale to point to where the biggest risks are emerging. Would this legislation allow us to set up a similar shared utility? No. It would not give them the confidence. Although it takes us a step forward and should be welcomed, it is not taking us where we need to be. We need something much more ambitious that keeps pace with global best practices when we look at the next economic crime plan, which I believe the Home Office will be launching imminently.

Q173 Seema Malhotra: On the economic crime plan, you suggested that quite a number of commitments made in 2019 have not been implemented. Could you briefly say something about that? Then Duncan Hames might share, from Transparency International's point of view, the top three changes that he would like to see in the legislation.

Helena Wood: I will start and then pass to Duncan. I would always say there is only so much that legislation can do. In many ways, as the Financial Action Task Force pointed to in the 2018 evaluation of the UK, we do have some of the best laws in place in the country. Although this law is absolutely essential in catching up with the threat, particularly around Companies House reform, we really do not have a problem with law; we have a problem of implementation in this country. We had an economic crime plan tracker, which is online and which you can scrutinise. It looked at all the 52 actions under the economic crime plan, and the most progress was made in areas of regulation and law—the bits that are quite easy and cheap to implement.

There was less progress in the areas of implementation, particularly around the enforcement of the existing laws in place. The big things that I would like to see prioritised outside the context of this particular Bill are things like policing reform, investment in the National Economic Crime Centre—I know you took evidence from them on Tuesday—and a real implementation of what we have got. That is not to say that this Bill is not necessary. It absolutely is, particularly around the huge gaps in Companies House capability and fundamental changes to its role, but none of this will come to anything if we do not invest in the enforcement response. I will pass over to Duncan, if I may.

Duncan Hames: We certainly welcome the Bill, and we welcomed the Government's announcement that they intended to legislate for these reforms three and a half years ago. It is great that these are now before you, as Members of the House. The opportunity to address these issues dos not come along as often as it might feel that it has this year since Putin's further invasion of Ukraine, so it is really important that we get reform of companies right this time rather than wait for things to be done later.

On what we would like addressed in the Bill, first, it is incredibly important that we do not allow a situation to develop where UK companies become the respectable front of otherwise secretive networks of corporates that provide the layering required to launder illicit funds. The use of corporate partners in offshore jurisdictions to control UK limited liability partnerships, for example, is a particular weakness that I can elaborate on.

Secondly, with these very welcome reforms, shareholder information will become the poor relation on the company register. That is a particular concern in instances where companies claim not to have a person of significant control, and shareholder information becomes our next best attempt to understand who is really behind those businesses.

Seema Malhotra: On the proposal in the Bill—

The Chair: May I say to the hon. Member that she has had quite a few questions and we are limited on time, so this will be her final question?

Q174 Seema Malhotra: This is just a quick follow-up for clarification. The Bill arguably makes shareholder information less transparent, because it takes away the opportunity to put information relating to shareholders on the central register.

Duncan Hames: A lot of information was collected on shareholders when this register was developed six years ago, and in many cases companies have been able to say, "There have been no changes." That means there is a risk that information on shareholders has become quite dated, and finding what information there is involves tracking down PDF format documents that were uploaded a long time ago. There is an opportunity, whether in legislation or in practice at Companies House, to make sure that shareholder information does not become much less usable for investigation and due diligence.

On the third thing you asked me about, we think it is very important that Companies House has the powers and uses them to check the information, where it thinks necessary, that has been used to verify information by trust and company service providers, and not simply take that on trust where it has concerns or suspicions.

Q175 Alison Thewliss (Glasgow Central) (SNP): I want to ask Duncan about Scottish limited partnerships and limited partnerships more generally. The Bill does not really crack down on the opaqueness of ownership. Could you explain a wee bit more to the Committee why that is a particular issue?

Duncan Hames: Limited liability partnerships have been a company entity available for the last 20 years or so, and 200,000 have been formed. We noticed that they kept appearing in revelations about major money laundering scandals. In the Danske Bank scandal, for example, the investigations found that UK limited liability partnerships were the vehicle of choice for the non-resident clients of its Estonian branch basically to hide their identity from those conducting compliance checks.

There are 1,600 LLPs that have appeared in these various scandals, but there are thousands upon thousands of UK limited liability partnerships that share the same offshore corporate partners. A pair of corporate partners registered in Belize are the controlling corporate partners of over 2,000 UK limited liability partnerships.

What is bizarre is that MPs have thankfully legislated to end secretive ownership of UK property, but we do not have the same requirements for overseas entities that control UK limited partnerships. As a result, we still have a veneer of UK respectability presented over what is essentially a secretive corporate network.

Q176 Alison Thewliss: Helena, in terms of tightening up Companies House registration, is there more that needs to go into the Bill to prevent abuse of the system?

Helena Wood: There are some fundamental flaws. Although this is a significant step forward from where we are, as we all recognise, there are some flaws in the model that has been designed. When the consultation was put out three and a half years ago, we advised against outsourcing ID verification checks to the trust and company service provider sector.

Our evidence for saying that was that there was an assumption in the model being developed that these sectors were largely compliant with money laundering regulations, but we know from the various scandals that Duncan has pointed to and the great investigative work by Duncan and others that that is not the case. I have referred publicly to some of that sector as a bunch of cowboys, and I would gladly go on the record to say that today. That comes from poor levels of compliance, which is the result of poor Anti-Money Laundering Council provision in the sector.

If we are to go ahead with this model where we outsource those checks to a sector that hitherto has not been known for its compliance with the standards, we need to do something outside the context of this Bill to really hammer that home. I particularly point to HMRC as the supervisor of the standalone TCSP sector. We really need to hammer down on compliance in that sector to raise standards overall so that HMRC can properly take on the role, although I restate that we initially advised against it taking on that role, given the current state of compliance in the sector.

The Chair: I call Eddie Barnes—*[Interruption.]* Sorry, I mean Eddie Hughes.

Q177 Eddie Hughes (Walsall North) (Con): You slightly confused me there, Chair; I thought I had forgotten my own name.

When Seema was asking about data sharing, Helena, you were saying that the Government are not going far enough. It is odd for me to ask you to second-guess the Government, but why do you think we are not going far enough? Sometimes it feels to me that people are in a hurry for legislation to do everything that needs to be done to improve a situation, whereas that, sometimes, is almost counterintuitive because it is better to do it incrementally. Let us do some stuff, get it right, come back, revise, learn and move forward again. What are your thoughts with regard to their pace of movement?

Helena Wood: The pace of movement on information sharing? I think there is an inherent tension at the heart of all global anti-financial-crime standards, which is often with how we square the circle of data privacy. They are two often quite diametrically opposing concepts. We need to find a way to not rush into this. Your point is well made. If we are going to push people into sharing more individual personal data, we need to do so in a way that utilises the best technology to preserve the privacy of innocent individuals. We need to bring in the data privacy community to make sure that whatever we craft meets the needs of that community also.

We should not—I agree—push forward so quickly with something that is inherently complex. I absolutely do not think that we should be pushing for amendments within the context of this particular Bill; we need to be looking at the issue more broadly. We need to look at how the Data Protection and Digital Information Bill, which is currently stalled—I do not know what its future is—will also facilitate greater sharing for financial crime purposes while protecting individual privacy.

The simple fact is that this is a very complex and emotive issue that deserves due consideration and full public consultation. However, we have had three years. This was a key tenet of the economic crime plan that came to an end in July. There were multiple meetings to look at how we could do this and what we came up with were these two clauses, which, for me, are a missed opportunity, given that others have managed in the same timeframe to move forward with much further-reaching legislation, such as that currently being debated in Singapore and the Netherlands. I think we could go further than we need to, otherwise we get left behind.

Eddie Hughes: May I ask a very brief question on ID verification?

The Chair: I am very sorry, but we are going to have to move on to other Members. I will come back if there is time at the end for further questions.

Q178 Dame Margaret Hodge (Barking) (Lab): I hope the Committee will look at our amendments on information sharing, the funding of enforcement agencies, shareholder information, Companies House checks and AML supervision; we tabled them in a spirit of improving the situation. I agree with all that.

I am going to ask about another issue, just to get it on the table. People engaged in the debate over dirty money are very anxious that we should move from just freezing the assets, particularly of the Russian Government and Russian oligarchs, to seizing the money so that we can use it—particularly for the reconstruction of Ukraine, when that war comes to an end. Can I have your views on that, starting with you, Duncan?

One final thing: a big thank you to both of you for the work your organisations do in exposing a lot of the problems and for the very positive attitude you have taken to establish solutions. Thank you to both of you, individually and to your organisations.

Tom Tugendhat: Hear, hear!

Duncan Hames: Thank you. I think it is important that we should continue to respect the rule of law and have a judicial basis for asset recovery. Too often, it is tempting to have a more administrative approach, and with that comes risks. It is very important that, as well as having the clarity of purpose to designate a whole substantial raft of individuals and entities for Russia sanctions, we have the determination to make those sanctions work.

We published some research just last month that found hundreds of millions of pounds' worth of UK real estate that we were fairly sure was owned and controlled by individual entities that have been named under Russia sanctions. However, if you check on the Land Registry, there are not any of the typical markers to say that you cannot sell or transfer or trade this property. That is partly because of some of the very clever and complicated arrangements for their ownership, including using trusts.

In the work you are doing on the Bill, there is an opportunity to ensure that really important measures for global security, such as our Russian sanctions, actually work, bite and make it impossible for those who have moved large amounts of wealth out of Russia to continue to control it in the interests of their political sponsors.

Helena Wood: I could not agree more that we need to start moving from freeze to seize, but I echo Duncan's sentiments that we must do so in a way that protects the very things we are trying to protect and do: the rule of law, due process and democracy. We should not push towards measures that effectively put in place a ministerial decree for confiscating individual assets and run roughshod over A1P1 principles.

That said, there is further we could go in UK legislation. Even with the advent of the much vaunted unexplained wealth order, our law enforcement agencies remain on the back foot. There is more we can do within the confines of European rights compliance-tested laws of reverse burden mechanisms to put law enforcement on the front foot.

Fundamentally, though, it is not going to be an easy fight to link those assets back to the criminality from which they once derived, given the difficulties of gaining evidence across borders. However, there are models we could replicate that have been tested for ECHR compliance, such as in Italy and Switzerland—I could name others. If the Committee will forgive me for trailing some forthcoming RUSI work, a paper is coming in November or December this year that sets out some recommendations of where part 5 of the Proceeds of Crime Act 2002 could replicate some of the principles of other regimes and push forward to at least put law enforcement on the front foot.

The other issue I would point to, which has already been partly legislated for, is cost protection for our law enforcement agencies. We have legislated for cost capping in cases involving UWOs, but they are not the right tool to use in all cases; I particularly point to the oligarchs, who do not fit under the definition of PEPs in UWO legislation. There is an argument for the Bill to potentially push for full cost capping of part 5 cases to increase the risk appetite of our law enforcement agencies to take those cases on in the first place.

Q179 James Daly (Bury North) (Con): I want to go back to information sharing. My understanding of the Bill—please tell me if I am wrong—is that the clauses will allow

"direct sharing between two businesses in the AML regulated sector"

and

"indirect sharing through a third-party intermediary for businesses in the financial sector".

That is what the Bill does. Putting it bluntly, what is wrong with that? What is the criticism of those aims and the things it allows businesses to do?

Helena Wood: Civil liability for confidentiality is one barrier. It is an important one, and removing it will hugely increase appetite, but it is not the only barrier. The boundaries within our data protection legislation are not explicitly clear; they are open to interpretation. We need more guidance, potentially from the Information Commissioner, to make clear what those boundaries are. We potentially need further clarification in the data protection legislation that is currently going through—

Q180 James Daly: I am sorry to interrupt you—we are short of time. Subject to that, the things I have just read out are good, are they not? We should welcome them.

Helena Wood: They absolutely are, and I would not—

The Chair: Very briefly, because I have two more people to bring in.

James Daly: Can we very quickly come to you, Mr Hames?

Duncan Hames: Helena is the expert on this particular subject.

Helena Wood: This is a welcome step forward. Others are going much further. The legislation that has been put forward in Singapore and Holland basically removes any barrier to information sharing by making it mandatory to share private-to-private in the context of the shared utilities that are being set up in those jurisdictions. Whether we should go down mandatory sharing is, as I have said, something that requires much further and longer public consultation. But we do need to look at that.

Q181 Liam Byrne (Birmingham, Hodge Hill) (Lab): Duncan, I think I heard you say that UK corporate structures were the structure of choice for money laundering in what was the biggest money laundering scandal in Europe. That chimes with a piece of work you put out on 10 October, which said that there are more than 21,000 limited liability partnerships that have red flags—characteristics of organisations associated with economic crime—and that economic crime could have cost tens or hundreds of billions of pounds. That is a hell of a state for this country to be in. Does the Bill fix the problem you have identified?

Duncan Hames: It is a serious matter, and this Bill doesn't. Although, as you say, we published that report very recently.

Q182 Liam Byrne: Did you say "doesn't"?

Duncan Hames: Doesn't. What I said earlier was that if you use an offshore entity to hold UK property, as a result of legislation MPs passed this year you now have to register on the register of overseas entities who the beneficial owner of that entity really is. We find out who really owns bits of Britain. But you can control a UK limited liability partnership through offshore entities, and we do not find that out. There is no way of checking the information.

We are presenting a respectable veneer behind an otherwise opaque offshore corporate network. If we could require the same level of declaration around the corporate partners of those limited liability partnerships, then we would lift some of that veil of secrecy. Then maybe we would not have a situation where rogue bankers in Baltic states were getting their clients to use UK limited liability partnerships to get around the compliance checks in their own organisations.

Q183 Liam Byrne: So UK corporate structures are being used for the worst money laundering, pretty much, in the world and the Bill does not fix the problem?

Duncan Hames: Not yet. I hope you will be able to address that.

The Chair: For the final question I come to Tom Tugendhat.

Q184 Tom Tugendhat: Clearly, Liam's point is entirely valid, but it is worth pointing out that that was a scandal in Estonia, which was very strongly dealt with by the Estonian Government. It is important to recognise that it is not just a UK issue. That being said, the Bill does open up an awful lot of information. Mr Hames, can you tell me how your organisation is going to use that information to start to address some of those issues?

Duncan Hames: Yes, happily. We are quite a small organisation, but this is about the power of putting information in the public domain. The report that we were describing earlier is a form of network analysis; that is the sort of thing you can do if open data is published, rather than information in PDFs, which are essentially photographs of old documents.

Whether it is organisations like ours, or investigative reporters such as the Organized Crime and Corruption Reporting Project, civil society has shown its potential to help uncover those crimes if there is information in the public domain. If we want a spirit of partnership, and if Government want the private sector to be its first line of defence, then it is really important that everyone is equipped with the tools that they need and that the company register is providing accurate information, which has been checked, that they can rely on.

Q185 Tom Tugendhat: Your point that this is a partnership is entirely correct. The Government have approached the issue in the way that we spoke about, you will remember, when I was doing a different job, as Chair of a different Committee. We spoke about the fact that the UK is a hub for so much of that crime for very obvious historical reasons, such as the depth of our capital markets, the use of the English language, the openness of our financial system and the importance of the rule of law. It is not simply a legal question—it is a cultural and a deep historic one as well.

Do you agree that those reforms begin that process and that fightback? Do they make a difference by scrubbing, as it were, the inside of the whitened sepulchre to ensure that we are exposing it to sunlight, so that organisations such as yours, the media, and many others around the world, will be able to identify where that money is going and from where it has come? This is also about jurisdictions overseas who are losing money through our system, not just about us who have to control it.

Duncan Hames: Yes, I agree. The Bill is beginning that. The challenge that we have is that it is six years ago that we last made reforms to Companies House, and I do not know when you are next going to get a chance to make further progress.

Tom Tugendhat: I have only just come into post.

Duncan Hames: It is hard, as we are often told, for legislative time to be found. So please make the most of the opportunity and take it as far as you can. It was only this summer that the US Treasury issued a money laundering alert about evasion of Russia sanctions. In that, they identified UK limited liability partnerships as part of the typology of the financial logistics for evading sanctions.

Q186 Tom Tugendhat: You will forgive me for recognising that there may be other jurisdictions closer to their home that are also involved in that.

Duncan Hames: But this is the jurisdiction that Members of our Parliament are responsible for.

Q187 Tom Tugendhat: We must get this right, but it is an international problem that we must all get right.

Helena Wood: May I come in on that particular point around Companies House reform? The point has been made by others giving evidence here this week and I will make it again until it sticks. Companies House reforms mean nothing if we do not resource Companies House properly. Using that secondary legislation to raise formation fees to £50, at least, is absolutely essential—

Tom Tugendhat: That is absolutely true, which is why the partnership that we have to put in place alongside agencies, NGOs and journalism, to make sure the application programming interfaces are open is so important.

The Chair: Order. I am afraid that brings us to the end of the time allotted for the Committee to ask questions.

I very much thank our witnesses, Helena Wood and Duncan Hames, for their time, and I thank Members for their questions. We now move on to the next session.

Examination of Witnesses

Chris Taggart and Elspeth Berry gave evidence.

12.5 pm

The Chair: We now hear from Chris Taggart from OpenCorporates and Elspeth Berry from Nottingham Law School. You are both very welcome; thank you very much for joining us this morning. Could you please introduce themselves for the record? We have until 12.35 pm.

Chris Taggart: My name is Chris Taggart and I co-founded OpenCorporates, the largest open database of companies in the world. Essentially, we take official company information, from Companies House and the equivalent of Companies House in about 140 jurisdictions, and we put it all in one place and make it freely available for everyone to use. About five million users a month use the data—everyone from journalists to law enforcement, regulators, banks, ordinary companies and so on. We are also a social enterprise: it is a company, but with public benefit at its heart.

Elspeth Berry: My name is Elspeth Berry. I am an Associate Professor of Law at Nottingham Law School. My teaching and research includes limited partnerships—well, all partnerships, including limited partnerships and limited liability partnerships, or LLPs—and my research in recent years has focused on limited partnerships and LLPs.

Q188 Seema Malhotra: First, thank you for coming to give evidence today; it is much appreciated. We have had some discussion on information-sharing; I think

you overheard that. If there is anything that you wanted to add, rather than repeating what we may have heard, that would be useful.

I want to ask you a bit more about the lack of transparency when it comes to shareholders. How much do you see that as an issue? Can you suggest any specific measures to increase shareholder transparency?

Chris Taggart: I will maybe talk about the information sharing after. First, shareholding data is not even data. It is just a name; it is just some letters put together. We have opened the gates by allowing it to be just a transient historical record—you know, somebody owns shares in a company. They make a report. They put down a name; we assume that they put down their own name, but of course they can put down any name. But the shares are transferred the next day—maybe into a trust, maybe to somebody else—and there is no record.

At the moment, I think we have that with shareholding, particularly given the international context of cross-jurisdictional context networks and so on. Shareholding actually matters. If someone who runs a chip shop in south Wales or is a mechanic in Estonia, or wherever, owns the shares, they own the shares. That matters. We are not recognising this.

I absolutely welcome the Bill and think it is a huge improvement on where we are, but I think the shareholding is a particularly strong example of how there is essentially still the same problem, which is that Companies House is a historical record of information submitted by people, and the bad actors will always lie. We need to change things, so that it is much more difficult and risky for the bad actors to lie. I think that is the fundamental criticism of the Bill, which, by the way, I think is entirely welcome. It is an incredibly thoughtful and well-drafted Bill, but it is fundamentally coming from a different era. The Bill is a better horse and cart, and the criminals are driving around in fast cars.

Elspeth Berry: On the shareholder transparency point, I noticed that the identity verification is not being applied to shareholders and I think it could be, possibly subject to some de minimis requirements. If they come in as PSCs, which is possible, that also brings us to the problems with the PSC legislation, because the thresholds are, depending on which view you take, either woeful in terms of not catching enough people or should just not be there at all.

The third thing is that, for reasons I do not fully understand, I see that the central register of members is going. Some things now have to be central and some things cannot be central, and shareholders will not be central. I would also point out that the unique identifiers are not being applied to shareholders, although, in any event, they are apparently they not going to be made public. I am not a journalist, but I rely on the work of some fantastic investigative journalists and organisations to dig through that stuff and find out, "Well, that shareholder is appearing here as a partner, there as a director and there as another shareholder," but that cannot be done.

Q189 Alison Thewliss: First, I want to follow up on that point about unique identifiers and how those would help. I have looked myself up in the Companies House register, and I appear as three separate people. Can you tell us what the benefits of having a unique identifier would be?

Elspeth Berry: The idea is that the John Smiths, the J. Smiths and the Mr Smiths can be linked. Where it is a common name—or an overseas name, where a person like me who was looking at this would not know it was a common name and might assume, "Well, that must be the same person," when actually it is not, because it is such a common name—it is important to find links. I can see that it is important for Companies House as one of their red flags, and they are going to be able to operate this system, but only partly, because it will not apply to shareholders or partners. But outsiders—people who do fantastic work that Companies House can't, doesn't or won't—are going to find it difficult, or at least as difficult as it is now, to do the work of trawling though everything.

Q190 Alison Thewliss: Do you think it would be necessary for Companies House to set about the work of going backwards through the register? There are companies being registered every single day. The legislation comes into force and things going forward will be registered, but how much work does Companies House now need to do to go backwards through the register and get rid of all the guff information in there?

Chris Taggart: Perhaps not as much as you would think. Companies House currently has a thing called the personal ID, which is sort of inferred. It is not that somebody has confirmed they are this person, that they are the same as that person and that it has been identity-verified. By looking at the home address and other information that has been supplied and that they have, Companies House create a personal ID. We actually pull in information from the API and from various dumps. In some of those dumps, that information exists, but not in the normal stuff. So that information is there.

I would just back up what Elspeth said: not only is it essential, but I see no benefit otherwise. If you are a business trying to understand whether you want to do business with another company—this is not just about crime; this is about creating a great business environment—you can go to a director page on OpenCorporates and see other people with the same name. Okay, that is useful, but do you really want to be trawling through that and making a judgment call? It is almost like sending investigators off to try to understand whether they are the same. If this person has three other companies that all went bust owing money, you do not want to do business with them. I see no public benefit at all to keeping this identifier private and a secret.

Elspeth Berry: In terms of historic information, I think that has changed over time and gone in a bad direction. As I understand it, Companies House is now restoring some of the historic information, and it is important that that is available.

I would also raise the issue that there are provisions here for limited partnerships to be deregistered or dissolved. I think the provisions themselves do not do what it was hoped they would do. We also need to know how those are going to appear on the register, because that has been a problem with—shall I say—shady limited partnerships appearing and disappearing.

Q191 Alison Thewliss: Is there an amendment you would make to make that clearer?

Elspeth Berry: In terms of the historic record? I would think 20 years; I understand that has been done for a lot of company information. If we are now going

to have a registry power to dissolve and/or deregister, it is a little problematic. All of that needs to be clear. We know that there has been a pattern of limited partnerships appearing and disappearing, perhaps ceasing to trade and perhaps coming back. We know that that is a pattern, which we want to see, and if 20 years has been the standard at various times for companies, why not for everybody?

Q192 James Daly: I want to pick up on the question about Companies House. On Tuesday, Companies House described themselves as a passive organisation at this moment in time; potentially, they are now turning into—I do not know if this the correct word—an investigative or certainly proactive organisation. All that we have heard so far, which I fully accept, is that it has to be resourced. How do you think this change of culture and investigation will work with some of the problems that you talked about?

Chris Taggart: That is a good question. Certainly, we have been dealing with Companies House on quite a close level since we were founded 10 years ago. I have huge respect for them; they do really good work incredibly efficiently and so on. The challenge is that they are good people, but the people we are trying to stop are not good people, and they think in a different way.

What Companies House think they are doing is creating companies—when people think of companies, they think of a factory, a shop, a company providing services or manufacturing things, and so on—but what they actually do is create legal entities; they create things that have a distinct legal personality and limited liability. The criminals know that, they are using it and they are using networks of these things. More than that, we are talking about a situation where you start to think about things from a traditional company point of view—what we all used to think of as companies—but, actually, the legal reality is one of legal entities, so you need to start thinking about this in an entirely digital way, an entirely data way and an entirely legal way.

I will give you an example. Where a company has got assets—it has got things—there is a downside to it being struck off. If you are overseas and you create a UK company, and the company is struck off, as long as the money has come in and out before that, that is fine—you have done the job for the company. We need to have a change of mindset, and that change of culture will be as important as the powers that Companies House actually have.

Q193 James Daly: The reason I ask is that the example was given on Tuesday of a chip shop in Barnsley—great town that it is—has 50 legal entities registered to it. There are thousands of examples all over the country. It would take one investigator months to investigate the information for every separate legal structure attached to that chip shop. What do you feel about that, Ms Berry?

Elspeth Berry: There will always be a problem, but that does not mean we should not tackle it and it does not mean that we cannot tackle it, and I appreciate that the Bill is attempting to tackle it. All of the things it is trying to do are good, but almost all of them could be significantly improved. We have to deter the wrongdoers. We have to stop looking as though this is a good jurisdiction to do this in. For example, there have been arguments about the fees. It is generally accepted that they should go up, and if your business plan cannot cope with £100 or £500, what kind of businesses are being set up here?

If we are not checking the identity of shareholders and applying PSC legislation to partners, there are still so many loopholes. It is not that there is something there that would be a sanction if they ever caught you—we know this from police and crime; if people think there is only a vanishingly small chance of anyone ever noticing, it is worth taking the risk. I suppose that brings us back to the point about the registrar's powers, which are great, but they are not duties in most cases. How will we know if she has done it, or what she can reasonably do to minimise the risks of various things—to check information?

One of the things we need is a clear database of things that are red flags—things that Transparency International and lots of journalists have identified that the registrar should be looking for, some of which the legislation still allows, such as things like overseas registries and multiple formations, and the use of company service providers. The problems with those were talked about during the earlier session, and the Bill is not going to entirely resolve those, if at all. If we can tighten down on a lot of those, we will reduce—never eliminate, but reduce—the amount of wrongdoing that is here because of problems we have either created or left in our laws.

Q194 Dame Margaret Hodge: I very much take your point, and I hope some of the amendments we put in address what you said about wanting to tighten up on the proactive role of Companies House.

I wanted to ask about shareholders and then about the disappearance of limited companies if they dissolve. I agree that shareholder information is really important—Usmanov brought that home to me. When we sanctioned Usmanov, he just gave everything to one of his daughters or something—anyway, it disappeared into other people's hands. Can you explain a little what we need to do on shareholder information? At the moment, there is a 25% shareholding barrier. Should that be reduced to 5% or 10%? That is my question.

Then, on limited partnerships disappearing, that was brought home to me very much as a result of the terrible incident in Lebanon—the explosion in Lebanon. It was found that a British-owned company was behind that, with a beneficial owner in Cyprus who happened to be a corporate service provider. It then turned out that it was a nasty situation where the actual owners were some Syrians, and the fertiliser was not going anywhere near Mozambique—which was where it was meant for—but was being used for barrel bombs to kill Syrian citizens. The moment that happened, they tried to dissolve the company and get it to disappear, and obviously in that area of wrongdoing, we need to hang on to any knowledge that we have.

This is for both of you: what amendments do you think are necessary to enable us to stop people dissolving companies and to force information out, so that where there has been that terrible terrorist wrongdoing, we can pursue the wrongdoers? That said, I take the view that a lot of what we are trying to do is prevent these things from happening in future.

Elspeth Berry: On the PSC point, a reduced percentage would be a vast improvement, but I think a zero percentage could be considered. You can have a lot of influence in all sorts of ways while not necessarily hitting those targets, because you are connected with somebody else in a way that we do not catch through the legislation. But I certainly think that a reduction would be a big improvement to try and catch more people who are de facto PSCs, but not in law.

On the limited partnerships point, there are a lot of things we could do. The Bill makes a start in doing those, but given that a lot of this started with the limited partnerships consultations, I am slightly concerned that they got put aside because it was a case of, "Here comes all the corporate stuff," and that is where all the money and excitement is. There is this small area of limited partnerships where there is a strong lobby for those people dealing with limited partnerships for particular purposes—quite legitimately—who do not necessarily want this to be made too difficult, but we get things like the restrictions on corporate partners not being applied to LPs. I had to read the provisions several times. I dread explaining them to my students, because of the difficulty in trying to get at who owns limited partnerships and who is in control of what is going on in them.

That level of "corporate partner on corporate partner on corporate partner" exists, and we know it is a problem. It is going to continue, depending on what we do with LLPs, and it is a big problem that they are just not in the Bill at all. It is like, "Oh, well, we'll just apply the legislation to them later," but which bit of the legislation? The corporate bit? The partnership bit? LLPs have a history of having the bits they want—the nice bits of corporate law and the nice bits of partnership law. Things can get missed because we think, "We have done the big task with the Bill." PSCs can be applied to partnerships; they haven't been here, and there is an assertion that it is not possible legally, but as a lawyer I would say that that is not correct.

You even have a provision here saying that people who have been disqualified under the company directors disqualification legislation can still act as limited partners. Limited partners have a limited role by definition if they are behaving properly—of course, they may not be—but even if they are behaving properly, a limited role is not no role for someone who has actually been disqualified from acting as a company director.

Chris Taggart: To pick up on an earlier question, the best information sharing is going to be information sharing in public. A lot of the great work that was done on people after the invasion of Ukraine was done using public domain information. There is a risk to lying in public. The fact that criminals will lie is also an opportunity to catch them out, because it is quite hard to lie consistently.

We get people all the time saying, "We don't want our information to be on OpenCorporates"—even though it has come directly from Companies House and other places—"I don't want people to know that my last two companies went bust," "I used to have a company running a brothel in Germany, and I don't want my new employees to know that" or, "I don't want people to know that I am running a company on the side or working for someone else." There is a cross-over here with data usage. When something is in the public domain, it needs to be functionally public. "Functionally public" means that you can use it and reuse it, and have it as data so that you can combine it with other datasets.

The shareholding data is so important, not just in and of itself, but because it allows you to ask, "Wait a minute. How is that happening with that?" Having it as data allows you to do that programmatically so that you can see trends.

Q195 Dame Margaret Hodge: Would you go down to zero—all shareholding data?

Chris Taggart: Yes. With shareholders, we ultimately need to get to a statement of fact—an authoritative record—so that what Companies House says is actually what the courts agree are the shareholders, and people cannot say, "We will move the shares, and then we will tell Companies House," or, "We forgot to tell Companies House." That will take work and time. We can extend the verification provisions for directors and PSCs to shareholders, at least over a de minimis amount, but ultimately we need to make Companies House the authoritative record of shareholding, so you are only a shareholder if you are on Companies House.

Elspeth Berry: On your question about dissolution, for limited partnerships it is a different issue because they are not an entity and you can still go after the partners, but of course that is why corporate partners are such a problem. Entities were a problem in Scotland some years ago. I am sure your Scottish colleagues can tell you more than I can about how that was dealt with after a fairly horrific criminal incident involving a lot of deaths. It was not possible to prosecute the partnership after it had dissolved. That is a problem with legal entity status, which is a whole big issue.

Q196 Seema Malhotra: I have a couple of specific questions. First, do you think there should be any sort of limit on the number of companies or partnerships registered at one address? Secondly, should there be any sort of limit—perhaps one beyond which there needs to be an application to increase, under specific criteria—on the number of directorships that any one director can hold?

Chris Taggart: On the latter question first, I have been a director for some 20 years. The first time, someone sat me down and said, "This is what's involved in being a director." You think, "Wow, that's kind of scary." You have a fiduciary duty and you have to understand the company. If you are a director of 200 companies, I fail to see how you can perform that fiduciary duty, or those companies are, in some ways, just legal entities for some conduits for something. They are not actually in business; they are just conduits. I struggle when someone is a director of 200 companies: either those are just legal entities for some purpose other than as a normal company or they are not doing their job. It seems to me obvious that there is a challenge there. Whether that is a limit or whether that is actually holding directors much more personally liable for the wrongdoing of the companies, I do not know, but I think that there is something. There seems to be a contradiction there, fundamentally.

Elspeth Berry: I agree. I would have supported a cap on the number of directorships for exactly those reasons, in that I do not think a director can fulfil their duties if they have a lot of companies. However, if you are not going to have that, that certainly has to be a red flag for Companies House. It has to be a thing they will investigate and that they have the resources to investigate, which comes back to the problems that we identified earlier.

On the addresses, if you have a company service provider giving their address, it is quite possible you will have multiples and that might be okay if that is their business, they are doing it properly, they are AML regulated and all the rest of it. The problem is that we have seen in recent years that they are not. Again, that ought to be a red flag. In the limited partnership proposals, where you are trying to establish some real connection, economic or otherwise, with a particular jurisdiction within the UK or, at least, with the UK, that is one of the problems. One of the options on the list—they are all problematic—I personally thought that the principal place of business might be quite a good one, showing an actual connection, but I have been corrected in my beliefs by my journalist colleagues who say that almost all the wrongdoers were able to tick that box. I think it is a problem if you are saying that as long as somebody will pick up the mail here, that is okay. Again, that needs to be a red flag.

Q197 Tom Tugendhat: I am very interested in some of the identification elements that are raised. How much of a difference will the verified identification make to the identification of individuals?

Chris Taggart: There are two issues. I watched some of the previous witnesses and the things that came across were issues to do with identification and resourcing and I back up both of those things. On identification, allowing the corporate service providers to essentially say they have done something seems both a huge vector for misuse and also unnecessary. The technology allows us to look like we are using one company when we are signing up online and so on, but it is all authenticated with another company. They could be using Companies House back ends or banks' back ends—we could have that authority and those standardised processes—and still you would appear to be transacting with a corporate service provider.

Having corporate service providers doing the identity verification seems like we have walked away from doing it properly. Once you allow corporate service providers to play a significant role, particularly on identity, I think we have a bit of a problem. Assuming that loophole is closed, this is really good, but it is still state of the art two, three or four years ago, and I think we need to start using digital identities. We need to make sure that, with somebody's identity, they are not saying one thing on this hand and not saying another thing on that hand. Again, the unique identifiers—

Q198 Tom Tugendhat: Mr Taggart, you will be aware that there is wider debate about unique identifiers because it ties in personal privacy aspects in healthcare, insurance and, in fact, every part of your life. Every single country that has introduced them has had a privacy pay-off. That is one that you may or may not be willing to address, but it is not just simply a question of companies.

Chris Taggart: Absolutely, but I think there are technical ways of doing that. It does not have to be one ID that everyone can see—

The Chair: Order. I am very sorry. That brings us to the end of the time allotted for the Committee to ask questions. I am very grateful to our witnesses for giving evidence.

Examination of Witness

Graham Barrow gave evidence.

12.35 pm

The Chair: We will now hear from Graham Barrow, a journalist and author appearing via Zoom. We have until five past 1 pm. Could you introduce yourself, Graham?

Graham Barrow: Thank you. I suspect I am probably unique among all the different people giving evidence because I am effectively a private citizen. I am not actually a journalist. I write, but not in a professional capacity. I am just somebody who became obsessed by what was happening at Companies House and have spent much of the last five years rooting away in the darker corners of it, to establish exactly how bad things are there.

Q199 Seema Malhotra: Thank you, Mr Barrow, for giving evidence today. To pick up on your point about becoming obsessed, I think that is an understatement of the contribution you are now making, which seems to be identifying so much more than Companies House is doing itself and documenting the flaws in the current system. Why do you think that is the case? You have played a very important role in documenting some of the most blatant abuses of the Companies House registration systems. How concerned should we be about the large number of companies you have identified that are incorporated in offshore jurisdictions with weaker money laundering laws than we have?

Graham Barrow: Thank you. Let me pick up on both of those questions. I think the reason why I have been successful is because I have a mandate to go wherever I want to and do whatever I want to. I also ought to congratulate Companies House because a lot of what I now know is through the release of its advanced search function, which has transformed our ability to understand networks of suspicious companies.

I really want to emphasise this idea of the network. No criminal ever set up one company. It is just not how it works. They work in networks of companies. At £12 a go, it is probably the cheapest way of organising a criminal network. Of necessity, they leave company DNA behind them. I guess I have a capacity for identifying that DNA and extracting it from the background noise at Companies House.

Your question about offshore entities is really interesting. I came into this five years ago very much thinking about what you have just been talking about—limited partnerships and limited liability partnerships. They feature prominently in a lot of the reporting. I think part of the reason for that is that they are, by and large, a very small subsection of the entirety of what is incorporated in Companies House. Therefore, the focus has been on some of that DNA that is exhibited by LLPs and LPs.

Before now, we have had very few tools that could establish the role of limited companies. To give that some context, since 1 January 2000, about 10 million companies have been incorporated at Companies House, of which about 5 million are still active. The loss rate is very high; it is consistently 50%. Nine and a half million of those companies are limited companies. That is an exceptionally difficult body of data to trawl through to establish suspicious activity.

I think one of the reasons why perhaps some of the stories I now re-tell on social media are novel is simply because we have never been able to extract those signals from the Companies House data before. For whatever reason, I appear to have a brain wired in a particular way that allows me to do that, and I have a very good relationship with Companies House. We share information quite regularly.

Q200 Alison Thewliss: Thank you, Graham, for coming to give evidence and for all the work you have been doing on the Companies House register. You have exposed quite a lot of companies that are essentially fake. They do not really exist—they are not real companies. Some of them are set up to imitate existing companies. Can you tell us a bit more about the extent of that and the scale of the work that the Companies House register will have to undergo to have a register that has integrity?

Graham Barrow: Where do I start? The scale is enormous. Even today, I have been looking—I have a company that tracks new company registrations. I can tell you that 20 or 30 companies have been set up in Leeds and in Birmingham today that have used real peoples' names and addresses, some of them for the fifth, sixth or seventh time. One gentleman is 92 years old and has just had his name used for a second time. It is an absolute scandal what is going on. I would say that at least 1,000 people every week have their names used as directors on companies without their knowledge or permission. You are talking about potentially 50,000 people a year. It is on an unimaginable and wholly unreported scale.

Q201 Alison Thewliss: Presumably very little of that gets picked up by way of an offence. It is an offence to make a false filing to Companies House.

Graham Barrow: No, and there are a whole range of reasons why, one of which is that you would need to identify the problem in the first place in order to understand that it is an offence. How do you deal with thousands of weekly company registrations that are clearly breaching the false declaration rules? It would overwhelm you. I think one of the conversations we probably need to have is that you are not going to address the problem instantly.

One of the things that will happen when this legislation is enacted—and I am massively supportive of it—is that company registrations will fall off a cliff to begin with. At this point, I do not think people realise just how many registrations currently would just not go ahead because it is not worth meeting, or they will not meet, those requirements. Will it have an economic impact? Absolutely not, because none of them were ever set up to do anything commercially relevant in the first place. I would not worry about it, but I do worry that the reaction to potentially a 30% or 40% drop in company registrations may force people to start rethinking the tenets of this, but they should not. I do not think you will see any economic consequences.

Q202 Alison Thewliss: Are there additional measures in the Bill that you think would be useful to shut that door on new companies?

Graham Barrow: I think there have been a couple of opportunities missed. You have been talking about PSCs, but what I have not heard yet is the fact that there is no minimum age to be a PSC. That is an issue, because you can be a shareholder and PSC at the age of zero. I do not know how you going enforce the identification verification for somebody who has absolutely no documentation. I do not see that addressed in the Bill. That is my first point. Secondly, I see nothing in the Bill to address statements of capital. I think that is problematic. At the moment the record is held by a gentleman from Equatorial Guinea who registered a company with £670 trillion of capital. That is a pretty neat trick, because that is 10 times the global GDP.

The other one that worries me, and this is something that I would like to talk about, is burner companies. That is a phrase that I have come up with; it means companies that start out with no long-term use whatsoever. There are elements within the Bill that allow grace days for conforming with requirements. If you are a burner company, it is fantastic because you have no intention of conforming. All you need, effectively, is to get that registration document to do whatever it is you want to do with it—and there are a range of things that you might what to do with it—and then you have no further use for it. Allowing grace days for conformance is potentially problematic. Those are my top three. I am not going go down the route of allowing CSPs—that has been done to death. It is obvious that it is a difficulty because you have no history of assertive regulation outside of the FCA and banks. We are aware that has not worked desperately well by the level of fines that are being administered. I think there is a bit of a hit-and-hope model, which in the end is unlikely to translate into any sort of useful outcome.

The Chair: I have asked for the volume to be increased, because I know that some Members are struggling to hear.

Graham Barrow: I will move my microphone closer.

The Chair: Yes, if you could speak directly into your microphone, we would be very grateful.

Q203 Dame Margaret Hodge: Thank you, Graham, for all the work that you are doing. Even the suggestions you have made are very sensible. Obviously the data that is collected is important, but one of the ways in which we think we can tighten up the provisions a little bit is to increase the duties of Companies House to check. In a way, that is what you do. You go into these massive datasets and decide, "What the hell am I going to look at?" Can you give us some ideas as to how we could hone the measures to ensure that there is a red flag way—call it what you like—of going in and checking on everything?

Graham Barrow: Absolutely. What I am looking at is probably not even 5% of what I could look at in terms of suspicious activity and red flags. I have not the hours in the day; bear in mind that I do not get paid for any of this, so it is a labour of love, or whatever. There is a sensible answer, which is that we are now in a world where data is manipulated really easily and in bulk. Therefore, something that my company has done is to design algorithms that looks at clusters of red flags. If all we look at, Dame Margaret, is red flags, we are going to be overwhelmed. We have to accept that we cannot address every issue straightaway, which means that we

need to look at clusters of red flags, which, taken together, can indicate significant organised crime or corruption that is being utilised through the formation of companies.

This year I have seen one organised crime group create about 1,500 companies, using data that they have stolen from two major global organisations. These are HR files, so the data is replete with all the personal information of those employees, who have then found themselves directors of companies that have been registered to empty shops, which have then been used to access banking, particularly overdrafts or other banking credit. There are about 1,500 companies, and the average overdraft might be £5,000 to £8,000; you do not need too many of them to be successful to understand that millions of pounds are being extorted or fraudulently obtained from banks through this ease of use.

Something else that is really important is the ID&V piece. If you have stolen ID&V data from, for example, a company's HR files, the implementation of proof of life at the same time—that is, you do not just have the documents, but can prove it is you by having some form of selfie or other real-time interaction—is vital, because these people do not just set up companies; they open banking with them. Banks can be criticised, but they do an awful lot more due diligence than Companies House. If these people are opening bank accounts, the ID&V they currently have is clearly high quality. We must bear that in mind.

Q204 Gavin Newlands (Paisley and Renfrewshire North) (SNP): A lot of the issues that the Bill rightly seeks to address are fairly high-level economic and corporate crimes, which are huge issues—and we are talking about huge amounts of money—but they do not directly have an impact on the vast majority of our constituents. One issue that does is phoenixing companies. Does the Bill do enough to address that type of issue?

Graham Barrow: Probably not. We have done some analysis of phoenix companies. For example, I think that something like 30,000 companies on Companies House have changed their name for fewer than seven days and then changed it back to its original name. That is a variety of phoenixing by which you disappear from your company name for a few days and then come back again. As you will probably know, Gavin, every year on Companies House there are thousands of proper phoenix companies—those that have dissolved and reopened, either geographically close or at the same address with virtually the same name. It is a real issue, and it is part of the whole broader issue of company name observations. There was a piece on "You and Yours" on Radio 4 a few weeks ago about a lady who had Asda Ltd registered to her terraced house in Huddersfield. She received 7 kg of post and all sorts of other things, and bailiffs turned up at her door.

The Bill does include the ability for Companies House to reject similar names, but if you have 3,000 companies a day—and that extends to companies across the world that may have similarities—I do not see how you are going to enforce that reasonably. There is just too much volume and too many potential comparative data points to compare them to. That is a huge issue, and one that inserting a little bit of friction between application and registration would help to address. At the moment, the focus is entirely on speed of getting on to the register. Putting in a bit of friction to do some proper checking would be a good idea.

Q205 Gavin Newlands: What specific amendments would you suggest for the Bill to address it a lot better?

Graham Barrow: Being clear that a company will not be allowed on to the register until those full checks have been made would be one. I would also be a lot stricter about the ability for people to register a company that has significant similarities to a previously registered and dissolved company. That may need a bit of crafting, in terms of the words, but I do not think that is beyond the wit and wisdom of people.

Companies House refused to dissolve or eject Asda Ltd because it was not close enough to Asda Stores Ltd, which is the actual name of the well-known supermarket. That seemed to be a bit of a nonsense. I am not saying that Companies House did not apply the law correctly; it suggests the law is not very good in terms of the intellectual capital.

There is a guy in Cheam who has legitimately registered Renault Ltd, Volkswagen Ltd, Adidas Ltd and Asda Ltd—which he re-registered after Asda Ltd in Huddersfield got struck off. That is simply nonsense. Intellectual capital is clearly being compromised by those registrations, yet we do not currently have the powers to deal with it. I know there is wording in the Bill on this. Obviously, the proof of the pudding is in the application of that, but I would like to see it tightened.

Q206 James Daly: Thank you, Graham. I think you have answered this question, but, in layman's terms, if Fred Bloggs from Bury—my constituency—who has led a blameless life and is 95 years of age, finds that his name is down as a director of, or linked to, any company or legal entity that has sent a supporting application to Companies House, how does this Bill assist him?

Graham Barrow: I guess the Bill is trying to assist by not allowing that to happen in the first place. That is the premise, is it not—that you should not be able to get somebody without their clear permission?

Q207 James Daly: Forgive me for interrupting, Graham—it is just because of time. When we look at red flags in various ways, we obviously talk about identification, but if the information produced is "Fred Bloggs of this address", where would the red flag come?

Graham Barrow: That is a difficult one to answer, because very often the address that appears on the public register is not their own address. However, it is potentially likely that a residential address appears on the non-public aspect of the register, because that is often the conduit for getting access to banking, as they will do electronic identification checks against somebody's residential address rather than other elements.

At the moment, there is one piece that is rightly hidden from public view, which is the director's residential address. That is almost certainly used by criminals where they have access to it, because that opens up access to banking. If we are not successful in stopping fraudulent use of directors' names and addresses, the Bill needs to be looked at carefully in its ability to give redress to that, without, of course, allowing people with rather ulterior motives trying to remove legitimate directors because they have some sort of vendetta.

We should always remind ourselves that, in our attempts to correct all of the bad stuff, we must not make it possible for people to use those corrections to then make life harder for the people who are doing the job legitimately. That is an ongoing discussion, I think.

James Daly: Thank you, Graham.

Q208 Tom Tugendhat: Could you give some live examples as to how you would use various aspects of the powers in the Bill to improve your ability to track? Of course, we have spoken on numerous occasions about the partnership that we need. If I may say so, Graham, you are an extremely active tracker of companies, and, I would therefore say, one of the top of the class in the public-private partnership.

Graham Barrow: That is kind. You must understand that I am a private citizen, so I do not have access to huge swathes of information that I would love to be able to get hold of to give a much rounder view of that. Companies House, of course, does, so there are some interesting things that it will have, such as email addresses, IP addresses and credit card details.

There are some important provisos there. Do not allow people to pay for their enrolment through a pre-paid credit card. That would be a bad thing. Do not allow people to apply through a virtual private network—a VPN. That would be a bad thing. Do not allow people to apply through something like Proton Mail or an encrypted mail account. That would be a bad thing. What we need is transparency in all those things so that we can aggregate that data with, for example, data from His Majesty's Revenue and Customs, voter roll data and other data, to get a much more rounded picture of people who are applying for company directorships.

Now, that only works here in the UK. It is worth bearing in mind that about 150,000 company incorporations every year emanate from outside the UK. That adds further difficulty. There were 50,000 applications from China last year, so that is clearly a problem. Incidentally, those numbers soared after China banned cryptocurrency at the end of September last year. There was an extremely easy to observe uptick in UK corporate registrations from Chinese individuals.

The Bill will start to address such a range of issues. I think it will be the first of many if we are really going to make our corporate environment safe and secure, and start tackling economic crime and the abuse.

Q209 Tom Tugendhat: I am very pleased to hear that. You are challenging me as Security Minister. You speak against cyber-security, which is an enormous element of the defences that we need for other areas of crime. I am sure you would not be recommending to anybody that they should never use VPNs or encrypted emails.

Graham Barrow: No. I am saying that for the purpose of registering a company in the UK, you should not be afforded that benefit.

Tom Tugendhat: I understand the distinction. I just wanted to make the point. As you can understand, it would raise other difficulties.

Graham Barrow: Absolutely.

Q210 Tom Tugendhat: I am very grateful for your input. I wonder whether you could say a little bit more on the issue of shell companies and how they are used. You will know very well the work of people like Oliver Bullough, Tom Keatinge and Luke Harding.

Graham Barrow: They are good friends.

Tom Tugendhat: They are brilliant. These people are quite literally on the frontline of our democracy, defending our freedom by defending our corporate integrities. Their work is extraordinary important. I would be grateful if you would say a little bit more about shell companies.

Graham Barrow: I count all those people as friends. Oliver and I exchange daily emails. We work very closely together. The last time we met was on a bus.

Tom Tugendhat: I should put on the record that he is a friend of mine as well.

Dame Margaret Hodge: Of lots of us around the table.

Graham Barrow: Shell companies are containers. Effectively, it is a container for assets. They are used in a whole variety of ways. They are used, clearly, as conduits for corrupt and criminal funds to be moved around the world. They are also used just as a container to access banking and do as I have just described—a one-off hit to get a bank account open and get an overdraft.

I have seen physical evidence of a company being incorporated to an address of somebody in Cardiff who knows nothing about it; on the same day, they open a bank account with one of our high street banks, and on the same day, they remove the automatic £8,000 overdraft that came with that bank account. Then they disappear, and of course it turns out that they were untraceable because none of the details they provided were real. That is a shell company, because that is not doing any normal commercial activity.

The Committee mentioned addresses earlier. I am sure some members of the Committee will know that there are addresses in central London that are home to 100,000 companies. That is clearly a matter of concern, particularly with the proportion of those companies that are registered from some of the more remote parts of the world—places you would struggle to find on a map—that concentrate at those addresses.

We need to be quite clear about the legitimate use of corporate service provider addresses. Some of our banks now provide that as a service. That is fine. There is one firm that offers this thing called a non-resident package, which should immediately make your ears prick up. Somebody from outside the country can register a business and be given the business bank account for a fixed fee. That bothers me hugely, because it makes me ask why.

The thing about shell companies is that they are not always easy to identify at the point of incorporation. We are getting very good at it, but it is still not an exact science. It is about lifetime analysis of a company's behaviour, as well as some of the red flags that are raised at the point of incorporation.

Q211 Tom Tugendhat: Thank you very much indeed. The amount of data coming out suggests that this legislation may do something to inform people about things such as phoenixing, which you have mentioned. Clearly, there are many aspects to that and I am not

[Tom Tugendhat]

going to pretend for a second that the Bill answers every single one—it does not—but it certainly goes some of the way towards ensuring that people can be better informed when they enter into future agreements. How would you say that the information alongside the verification assists you?

Graham Barrow: It probably does not assist me an awful lot, because I do not have access to a lot of the other data that particularly members of JMLIT, and other law enforcement and Government organisations, have access to. As a private citizen, I will not have access to that much more information. That is probably a good thing, because I am already drowning in information. For a man who is going to be 70 next birthday, it is not exactly the retirement that I had planned. In a way, I think the best thing I can do is help to inform and educate others so that as the Bill starts to generate that information, some of which I will not be privy to, I can at least help people to understand better how to analyse and aggregate that information to extract signals.

Ultimately, there will be too much information to do everything with, so it is about how we organise ourselves, particularly at the point of incorporation, so that instead of waiting for a problem and going back to see how it happened, we identify that problem in the process of being set up, and start proactively managing the people who are part of organised crime or corruption and are using or abusing Companies House to do that. We have never done that before, to the best of my knowledge, but we are now in a situation where we can start doing it.

Q212 Dame Margaret Hodge: I want to take you back to the work you did on Deutsche Bank. First, what additional powers did it lead you to think you needed? Secondly, how did the FCA respond—what was lacking or worked well there?

Graham Barrow: Dame Margaret, you ask me a tricky question because I worked at Deutsche Bank, and some of what I know is privileged and I cannot talk about it. In fact, my work in Deutsche Bank is what has led me to be sitting here, because it was while I was there working on the Russian mirror trades that I realised that two completely different firms had filed exactly the same set of accounts—identical accounts—signed by the same person. My rather naive reaction then was, "How on earth did this happen?" I know better now. That person's name is in the public domain: it is Ali Moulaye. He is a dentist who currently lives in Belgium and has been written about frequently. I kind of discovered him, in a way. He has signed more than 10,000 sets of accounts on Companies House on behalf of at least 2,500 limited liability partnerships, a significant proportion of which have, sadly, been named as being involved in various laundromats.

One issue was that all those accounts were filed on paper and were then scanned in as an image, not as a machine-readable document. That is a really big disadvantage, because it prevents people such as me, or those with access to clever technology, from reading those documents into artificial intelligence engines and performing deeper analysis on them. It is a very difficult problem. It would be a wonderful thing—although I suspect quite labour intensive—to retrospectively digitise all those old PDFs, because there is a huge wealth of intelligence still residing in them that we truly do not understand. That is also very much true of limited partnerships, which still can only file on paper. The only way to incorporate a limited partnership is on a paper application. That makes reading the data on those registration forms extremely difficult, which is why lots of it has remained hidden for so long.

The Chair: If there are no further questions from Members, I thank the witness; Graham, thank you very much for your time.

1.4 pm

Ordered, That further consideration be now adjourned. *—(Nigel Huddleston.)*

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Fourth Sitting

Thursday 27 October 2022

(Afternoon)

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not later than

Monday 31 October 2022

The Committee consisted of the following Members:

Chairs: Mr Laurence Robertson, † Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
Doyle-Price, Jackie *(Thurrock)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Huddleston, Nigel *(Lord Commissioner of His Majesty's Treasury)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Morden, Jessica *(Newport East)* (Lab)
Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† attended the Committee

Witnesses

Angela Foyle, Chair of ICAEW's Anti Money-Laundering Committee, Institute for Chartered Accountants England and Wales (ICAEW)

Mike Miller, Economic Crime Manager, Institute for Chartered Accountants England and Wales (ICAEW)

Peter Swabey, Director, Policy & Research, Chartered Governance Institute UK & Ireland

Catherine Belton, Journalist and author

Professor Jason Sharman, Professor of Politics, University of Cambridge

Public Bill Committee

Thursday 27 October 2022

(Afternoon)

[Hannah Bardell *in the Chair*]

Economic Crime and Corporate Transparency Bill

Examination of Witnesses

Angela Foyle and Mike Miller gave evidence.

2 pm

The Chair: We will now hear oral evidence from Angela Foyle and Mike Miller from the Institute of Chartered Accountants in England and Wales. We have until 2.20 pm. Could the witnesses please introduce themselves for the record?

Angela Foyle: I am Angela Foyle. I am the head of risk management and economic crime at BDO Global, but I chair the economic crime sub-committee of the Institute of Chartered Accountants in England and Wales.

Mike Miller: My name is Mike Miller. I am the economic crime manager working within the Institute for Chartered Accountants in England and Wales.

The Chair: Thank you very much. I will first call Liam Byrne.

Q213 Liam Byrne (Birmingham, Hodge Hill) (Lab): Thank you, Ms Bardell. Starting with you, Angela—thank you so much for coming to give evidence. First, what are the perceptions around the world of London, in particular, as a centre for money laundering? How serious a problem do people abroad think that we have here?

Angela Foyle: Publicly, it is stated that London is one of the key capitals of money, but that is partly because it is the largest financial centre in the world, so you will inevitably have dirty money flowing through. There is that view. It is something that the US, in particular, has made comment on at times. On the other hand, when talking to Europeans, we are also recognised as being at the forefront of introducing legislation in relation to money laundering regulations and enforcing them, to some extent, compared with other jurisdictions. It is a bit of a mixed bag, depending on who you are talking to and in what context.

Q214 Liam Byrne: You used the word inevitable in your answer. Is it inevitable that there will be lots of dirty money on the scale we have flying through London today?

Angela Foyle: I think what I meant by that is that it is inevitable that you will have some illicit finance where there are significant movements of finance. I am not saying it is good—I think it is wrong. I think we should stop it to the greatest extent that we can, but where do you hide a tree? It would be in a wood. So, where are you going to hide dirty money? It is going to be somewhere where an awful lot of money is flowing through.

It is not that I think it is a positive thing at all; I think it is very negative. I actually spend most of my working life trying to see how we can prevent accountants and others—I have forgotten the word I mean—unknowingly getting involved with it. It is a problem for London that we have to be acutely conscious of, and therefore we have a greater responsibility, in many ways.

Liam Byrne: Thank you—that is well put. Mike, what is your view on that?

Mike Miller: I agree with Angela. London is such a large financial centre and there is such a volume of money moving through it that there inevitably will be, as Angela said, some money that is not well sourced and not well processed. That being said, we work very hard, particularly at ICAEW, to try to clamp down on it. Illicit finance and illicit transfer of funds affect the profession particularly badly. They put people in a very difficult position, both reputationally and legally. You will find the vast majority of chartered accountants and other professionals do not want to engage in unprofessional and malicious practice when it comes to that finance. We work very proactively with Committees, Parliament and across Government to make our representations about how this can be more effectively countered.

Q215 Liam Byrne: Angela, we heard evidence on Tuesday from UK Finance that it was concerned that the verification regime proposed in the Bill is much weaker than the regime used across the AML regulated sector. What is your view on that? Are you worried that a two-tier verification regime is emerging here?

Angela Foyle: It is interesting, because we would probably put it the other way around. The standard—sorry, I beg your pardon, I was thinking about the earlier Bill. Yes, this Bill has two forms of verification, by either Companies House or authorised corporate service providers. It does not appear to have the wording that would be in the money laundering regulations, which requires there to be reasonable verification measures using a risk-based approach. I think those kinds of words always assist, so that you actually have to assess and understand the risk surrounding the people you are trying to verify first, and therefore, if necessary, enhance your level of verification.

Q216 Liam Byrne: Do you think that is a weakness in the Bill that we should think about strengthening?

Angela Foyle: Around verification, yes. There is a spectrum, however. Requiring that someone has to verify, that is, prove, that that is true goes beyond what is possible for an accountant. I can look at documents. I can take careful measures to ensure that those documents are, or appear to be, valid, but I cannot actually ever say with 100% certainty that x is x; I can simply say that I have done the following work and, based on that, these are reasonable measures on the risk basis. I certainly think that is an area that could be, at the very least, clarified as to the standards expected to ensure that they are consistent.

Q217 Liam Byrne: That is very useful. Finally, the folks from Lloyds bank, and others, described how easy it is to move money through a network of banks and then consolidate it into a final bank, from which bad people may take their money out. We were worried

about the way in which proxies in particular could be used by bad people to help with this kind of mechanism. In the Bill, we have a definition of "person with significant control", which is someone with about 25%. Is that too high?

Angela Foyle: It is based on the Financial Action Task Force standards on beneficial ownership, which looks to people who own 25% or more, in some cases, or more than 25% in others. It is one of those challenging issues because, in relation to things such as proxies, often it is not the about the levels that a person owns, it is the fact that x purports to be the person who holds it, when actually they actually do so on behalf on y, which can be very difficult to track through.

Many people look below 25% in any event just to make sure. Particularly with sanctions, they will have a look there. But 25% is a global norm and changing it might cause other challenges. This is the question: are you satisfied that you understand who the people that you are dealing with are, and who is behind them, at all times? It is not necessarily a question of whether it should be 20%, 5% or 25%. It is a hard one for me to answer because I work with 25%, but I will generally have a good look around to see what else there is.

Q218 Alison Thewliss (Glasgow Central) (SNP): In your evidence to the Committee, you said that you wanted Ministers to amend the legislation to ensure that accountancy firms are in the scope for indirect information-sharing provisions. Will you tell us a bit more about why that is important?

Mike Miller: Indirect information provision essentially relates to a third-party database which would allow the easier sharing of information between financial firms. The ones that are already mentioned include banks, crypto exchanges and various different entities that could be privy to malicious financial movements, essentially. The accountancy sector has not been included in that, so for the purposes of a lot of the work that we are doing about the open sharing of information with law enforcement, between bodies, between other firms, it would be helpful for the streamlined moving of information. It would certainly help accountancy firms to identify more quickly, and thus reduce the likelihood of, any bad transactions taking place. An accountancy firm could avoid getting embroiled in things it does not wish to get embroiled in if it had pre-emptive access to any intelligence—that may have been discovered by a bank, for example, looking in more detail at specific financial transactions than accountancy firms tend to—that indicated that it should not be doing business with particular entities.

Q219 Alison Thewliss: Thank you, that is useful. As one of the organisations under the OPBAS umbrella, how do you feel that is going with anti-money laundering supervision because there has been some criticism of that regime and its efficacy? Looking at the 2019-20 figures, I understand that you cancelled 10 memberships and issued 39 fines totalling £117,000 to members. What does that stand at now, and is it an effective deterrent?

Mike Miller: I do not have the up-to-date figure with me today, but I can come back to the Committee with that in writing. Generally, in OPBAS, we are obviously very supportive on the need to have professional bodies for oversight of regulation for anti-money laundering. There is obviously a Treasury consultation going on into the potential restructuring of OPBAS. We have been working closely with it to ensure that our members are represented, but also so that it will be the most effective oversight that it can be.

ICAEW is the largest supervisory body in that space. We are very proactive in taking a risk-based approach. We cover a lot of firms, and it is necessary that a lot of those inspections are carried out based on where we assume there is a higher level of risk of illicit financial transactions. Whether that should be changed is obviously something that we will come back to in the consultation.

We have been speaking regularly to Treasury and other groups. They are collecting intelligence to try to determine, I think, some concrete proposals before they put it out to consultation, but we are very supportive of OPBAS. We continue to work closely with it and have a strong supervisory body in place for the PBSs.

Q220 James Daly (Bury North) (Con): Under the Bill exemptions from the main money-laundering offences would apply in two sets of circumstances. One is when a regulated business ends a business relationship with a client or customer and hands over property worth less than £1,000 for that purpose. The second is where a regulated business is dealing with property for a client or customer and prevents access to property of equivalent worth. Do you have any view on those exemptions and how they would potentially affect your profession?

Angela Foyle: I am not so sure the first one will affect us, at £1,000. The second one may facilitate certain activities for our insolvency practitioners, particularly where they are appointed in circumstances where they know that there has been some form of fraud—be that tax fraud or what is often called "fresh air invoicing" or invoice discounting fraud, where there is a set amount of money that is known to be tainted—because, currently, all of the assets of the insolvent entity can often be tainted, and defence against money laundering applications have to be made for each and every transaction done. By having that, they will be able to ringfence certain amounts that they know to be tainted—they would obviously do investigations to ensure that they have got that amount correct—and then deal more quickly with creditors and others with the remainder of the funds. In that sense, we certainly welcome that amendment. It is one that we raised with the Home Office, alongside the banks and, I believe, the Prison Service may have wanted it as well.

Q221 James Daly: Time might mean that you will be not be able to answer this question as fully as you might wish. However, on where we are now, and where the Bill will take us, the general view that we have heard from witnesses is that it is good—maybe as a starting point to go forward from. In a few sentences, will you explain how you think the Bill will affect your profession, for good or for bad?

Angela Foyle: There are a number of areas in which it will affect us. We are very much in favour of the changes to Companies House, I must say, and of giving additional powers to it. We are incredibly supportive of that.

One example that we can give relates particularly to the misuse of registered offices. All the firms have found instances of people effectively putting their address as offices of accounting firms, presumably to give them credibility. In some cases, that is linked to using names similar to either regulated or existing lawful businesses. Again, that is clearly intended to facilitate fraud. Currently, it can take months to get people off that address, but with the additional powers, we are hoping that that can be done much quicker.

Similarly, with other misuses, such as the inability to contact businesses, there is also the identification of directors to ensure that you are dealing with the people that you think you are. Even if those perhaps could be strengthened in some ways, I think there is a lot that is positive in the Bill. It is a staging post, but it is a really important one.

Mike Miller: I agree with Angela, particularly on the point about Companies House. We are definitely behind the reasons for and the principles of the Bill; we are very supportive of all that it seeks to do. We have been saying for quite a while that some of these measures are overdue, particularly those on Companies House, as Angela mentioned. We have proposed some tweaks for a few areas, particularly around verification, as we have touched on before. There is going to be a two-tier verification in the sense that Companies House will be responsible in some way or another for the verification of those that are registered in the UK. For overseas entities, that is a bit more of a challenge, because they require legal verification and we currently think that the legislation is such that it does not really allow a reputable business to take on the level of risk of a new client unless they have a particularly established relationship.

We have made some recommendations to our members that they need to exercise extreme caution taking on new clients solely for the purpose of verification. That is so the system works; it is not so that they avoid it. It is so that it does not, first, stop people being able to do business in the UK when they rightly should be able to, and secondly, so that if the larger, more reputable firms do not offer that service, then it becomes something that is picked up by those that we may not necessarily want to offer that service.

We have also recommended a couple of areas where we think it could be strengthened, particularly around notifying Companies House of a change of auditors, so there is a two-pronged approach. That is so that companies themselves, for example Angela's firm, knows that they have been assigned as an auditor, to make sure that is correct and they audit the company, and for Companies House to make sure that a company is audited as it should be. We think that would reduce the likelihood of discrepancies coming in, going forward. However, overall, we are generally supportive.

James Daly: That is very helpful. Thank you.

Q222 Dame Margaret Hodge (Barking) (Lab): ICAEW represents what proportion of the accountancy profession, do you reckon?

Angela Foyle: I do not know the proportion, but there are about a hundred and something thousand members.

Mike Miller: Yes, about 110,000 members. I am not sure of the proportion.

Q223 Dame Margaret Hodge: You do not know the proportion, but the truth is that there will be people who are financial advisers and accountants who are not members. You have a policing role, but if they are not your members, they are not policed.

Angela Foyle: Not by the ICAEW, but there are other institutes out there.

Q224 Dame Margaret Hodge: Yes, but you are the big one.

Angela Foyle: We are the bigger one, but they may be by someone else. There are also people who are not regulated by any professional body who can call themselves accountants as well.

Q225 Dame Margaret Hodge: Quite. We know that most accountants are brilliant people who make sure we do not make mistakes when we fill in our tax return and all that sort of stuff. However, we know from all the leaks that there are a lot of bad apples in the accountancy world.

There are two things I wanted to ask. One is about the current system of regulation. You as professionals play a role in the system. What changes would you make to ensure the current regulation encompasses all those who call themselves financial advisers or accountants? Secondly, how good are you at your policing role? You obviously have a lobbying role and looking at both your CVs, you are on the lobbying side to make sure regulation fits what your profession wants. I am much more concerned about the policing role. Can you tell me how many people in the last year have been suspended, or whatever it is you do to them, if they have been found guilty of engaging in, facilitating or colluding with economic crime or money laundering or anything like that?

Angela Foyle: I do not think we have the numbers for the people this year.

Mike Miller: We do not have the numbers up to date for this year.

Q226 Dame Margaret Hodge: I had them, but unfortunately I have lost them. I think it is about 10 or 15.

The Chair: I am going to have to curb this and move on very briefly to Tom because we have to finish.

Q227 The Minister for Security (Tom Tugendhat): This is a very brief question. What difference will this make to the solicitors' profession as well? You will have noticed that there is not only a control of accountancy but an increase in penalty to solicitors' regulations.

Angela Foyle: Neither of us is part of the Law Society so we cannot speak for them, but clearly, that was something that was thought to be necessary as a deterrent. Although I expect most of them are likely to be regulated by the Solicitors Regulation Authority for money laundering, rather than the Law Society. However, it must have been a gap that was thought to be necessary to fill. I really do not know, otherwise; I am speculating.

The Chair: Thank you very much. That brings us to the end of the time allotted for the Committee to ask questions. I thank our witnesses on behalf of the Committee for their evidence.

James Daly: On a point of order, Ms Bardell. As a result of Mr Tugendhat's question, I had better declare an interest: I am a practising solicitor.

The Chair: Thank you very much. That will be put on the record.

Dame Margaret Hodge: Can I ask something wicked? Can the witnesses provide written answers to my questions?

The Chair: They can indeed.

Mike Miller: I am very happy to.

Angela Foyle: Could we possibly have your question in writing, just to remind us?

The Chair: We will arrange for the questions to be delivered to you in a written format and additionally distributed.

Examination of Witness

Peter Swabey gave evidence.

2.21 pm

The Chair: We will now hear oral evidence from Peter Swabey of the Chartered Governance Institute UK & Ireland. I hope I have pronounced your name correctly.

Peter Swabey: It is pronounced "sway-bee", but that is fine. I am used to all sorts of things.

Q228 The Chair: Thank you very much. We have until 2.50 pm for Members to ask questions. Could the witness please introduce themselves for the record?

Peter Swabey: I am Peter Swabey, and I am the policy and research director at the Chartered Governance Institute UK & Ireland. The institute is the professional body for people who work in governance, which includes company secretaries and governance professionals in all sectors.

Q229 Seema Malhotra (Feltham and Heston) (Lab/Co-op): Thank you very much, Mr Swabey, for coming to give evidence. Could you say a little about what you do in relation to issues around economic crime? What is the view of your members about what more needs to be done and whether there is enough going on in the Bill? Do you have two or three things that you think need to be improved?

Peter Swabey: The institute and its members look at governance. Effectively, they are the people who are responsible for filing documents at Companies House and for advising boards on good governance. In that sense, they are perhaps less directly involved in economic crime than some of the other bodies you are hearing from.

From our perspective, the Bill is a really good effort. While I was sitting at the back, somebody said that it was regarded as a starter for 10. I think the Bill is a really good start on a lot of things that a lot of people have been thinking that Companies House should have been doing all this time—indeed, many people thought Companies House was doing it all this time, but it has not had the powers to do so. From that perspective, giving Companies House some of those powers is a really big step forward. There are a few things that I would perhaps have done differently, but that is in the realm of detail.

Q230 Seema Malhotra: What about gaps?

Peter Swabey: The big gap, from my perspective, is around the role of the company secretary or governance professional in the Bill. We were just hearing a bit about the arrangements for who is allowed to deliver documents for the authorised corporate services professionals. In most companies, it would be the company secretary who takes responsibility and ownership for doing that. That is something that we would like to see more specifically included in the Bill. The Government's intention may be to include that in the regulations that the Secretary of State has the power to make. That is fine—that is regulations—but I would much rather see it in the Bill and, ultimately, the Act.

Q231 Seema Malhotra: To be a bit more specific, what more do you suggest should be in the Bill?

Peter Swabey: For me, it should reference the role of the company secretary. I have a slightly wider issue than that. The Companies Act 2006 got rid of the requirement for a company secretary in all companies. That was deregulatory—that was fine—but we now rely much more on the reporting that companies do and the filings that companies make, so I believe there should be a requirement for a company secretary, not just in public companies, as there is now, but in larger private companies that also have to meet some of these requirements.

Q232 Alison Thewliss: We heard earlier about some of the deficiencies in the way that documents are delivered and uploaded to the Companies House website, and how they can be used thereafter. Are there practical improvements that could be made to improve that situation, both at your end of the process, in the filing, and for the use of those documents at the other end of the process?

Peter Swabey: Yes, I think there are. We have regular engagement with Companies House and that is one of the things that it is seeking to tackle already, but will also seek to tackle through the powers and resources that it will hopefully get as a result of the Bill. It would great if everything that has to be filed at Companies House can be filed electronically. There are still a number of things that cannot be. Again, that may be changed as a result of the changes that Companies House are making to their system but, as we stand at the moment, there are things that cannot be filed electronically.

In terms of use, there is a question that companies sometimes get feedback on from shareholders, which is on the availability of information, particularly about retail shareholders, and particularly for those companies that have large registers of members. Individuals on this Committee, or me, or whoever—their name and address might be at Companies House in respect of a holding of 100 shares in a company. If it is a big public company with millions and millions of shares, that is probably not that helpful. There are people who buy copies of the register for commercial purposes. It would be quite useful to tighten that up.

Q233 Alison Thewliss: We have heard an awful lot about deficiencies in the register in terms of the information that is on there and the practical difficulties that that causes for companies who wish to interrogate the information for their own due diligence. Is that an issue you have come across?

Peter Swabey: Yes, I think it is. It is an issue in a couple of ways. We just heard about the challenges in correcting deficient information. There are a number of plcs that have reported that their registered office address has been used for companies of whom they have never heard. If you are a plc with a large number of subsidiary companies, that could quite easily be overlooked by people. As somebody said in the last session, that is then used to give credibility to the potentially fraudulent company that is being set up. Being able to fix that more quickly is certainly an advantage.

Q234 James Daly: One of the things we have talked about with every witness—you will probably give a similar answer, Mr Swabey—is that we all want to see Companies House resourced to be able to carry out the requirements in the Bill. One witness this morning made reference to the sheer volume of companies and legal entities that are registered at Companies House on a daily basis. If one of the consequences of the Bill is that registration at Companies House takes longer because people have to go through the regulations and comply with other duties, is there any consequence to that?

Peter Swabey: I think it makes it a little more difficult for some people. I am a company secretary, so I would argue that you simply have to plan it all a bit better, and perhaps think about some of that a little more in advance. It will mean that some corporate transactions that you can currently deal with very quickly by simply having a meeting in a room and agreeing that so-and-so and so-and-so are the new directors will now have to go through a process. We are all hoping that, as promised, Companies House will manage the verification process for new directors expeditiously so that that will not hold things up unduly, but it is an additional factor to bear in mind.

Q235 James Daly: In layman's terms, and very briefly, if I want to register a legal entity and I employ you or somebody else to do that, what information is submitted to Companies House?

Peter Swabey: You have to name the directors. You have to give some sort of evidence that the directors are real people who you know, so some piece of personal information about them. That might be their eye colour or their national insurance number. Nobody actually checks that, by the way. You just have to fill the box in. You have to have a registered address for the company and a few other details, but it is a relatively simple process.

Q236 James Daly: So such a process—light-touch regulation at its finest—is certainly open to fraudulent activities.

Peter Swabey: I think it is fair to say that at the moment it is nothing like as secure as any of us would like it to be, and the Bill is a big step forward in tightening that up. I would still like to see it go further in some ways.

Q237 Dame Margaret Hodge: It is the beneficial ownership that is revealed to Companies House, not necessarily even all the directors, as I understand it. The way you are talking, you obviously deal with big companies. The whole purpose, which I think we all share across the room, is that we want SMEs and the growth of new companies. The idea that every SME will have a company secretary is not really a viable alternative. That means it is really important that we can have faith in the company service providers, who are the people who check the data. Given the way the Bill is constructed, do you think you would have such faith, in particular given all we know from the Panama leaks onwards?

Peter Swabey: It is really important to make sure that the hoops through which those authorised company service providers go before they become authorised are significant, to make sure that we can have confidence in that.

Q238 Dame Margaret Hodge: What would that entail?

Peter Swabey: That would entail detailed verification of who people were, of who the ownership was and how that was structured and, effectively, Companies House having a bar to doing that. Where I would take issue slightly with the premise of your question is when you talked about SMEs not needing or not having space for a company secretary; most of them have an accountant and all sorts of other things. It does not have to be a full-time role; someone can be doing it part time, but what is important is that someone who knows what they are doing is looking after those issues.

Q239 Dame Margaret Hodge: Do you know how company service providers are regulated and supervised?

Peter Swabey: No, it is not something that our members—

Q240 Dame Margaret Hodge: They are supposedly regulated and supervised by HMRC. Previous witnesses talked about OPBAS, which in its most recent report said that 81% of those supervisory bodies did not have a proper risk-based approach to ensure that those people were lawyers, accountants, bankers or whatever, that they were legitimate people not colluding in or facilitating economic crime. What do you have to say about all that? Basically, supervision is in a mess. HMRC does nothing to supervise company service providers. What is your view on that?

Peter Swabey: I cannot help you much with that, because we are not a supervisory body in that sense.

Q241 Dame Margaret Hodge: You give advice on what makes good supervision.

Peter Swabey: We give advice on what is good governance for organisations, not on the supervisory role.

Q242 Liam Byrne: I want to pursue that point for a moment. In the interests of good governance, would it not make sense to strengthen some of the obligations on directors to include, for example, a duty to take steps to prevent corruption in their organisations? We have similar measures on corruption; we do not have similar measures on economic crime and fraud.

Peter Swabey: You have the directors' duties under section 171 of the Companies Act and so on. Those are there, but it is difficult to identify exactly how those directors' duties can be pursued against any defaulting director. For me, that is one of the challenges. Were you

to introduce something extra on that, that would be a solution, but again you would need to look at how that could actually be enforced.

Q243 Tom Tugendhat: It is nice to see you, Mr Swabey. May I ask specifically about the governance aspect, which is your area? Accountability is fundamental to governance. You cannot hold people to account for things that they are not responsible for, or likewise the reverse. Will you touch a little on how you see that improving—not just the accountability in financial transparency, and all the anti-money laundering and various other aspects we have spoken about, but the ability to hold companies to account for other governance areas, whether those are corporate social responsibility, clean-up, environmental or many others?

Peter Swabey: The Bill deals with some very specific issues, which are not necessarily those. I think that the Bill would need to be broadened significantly were it going to get into things like sustainability, corporate social responsibility and so on.

Q244 Tom Tugendhat: You do not think that cleaning up Companies House, making people accountable, and understanding who they are and who knows what are important for governance?

Peter Swabey: No, I think that is very important for governance. What I was saying was that you were then talking about some of the other issues, such as corporate social responsibility, which are probably outwith the scope of the Bill as it stands.

Q245 Tom Tugendhat: I do not agree; let me push back on that. One of the things we have a problem with in the community that I am lucky enough to represent is dumping waste—fly-tipping—and it so happens that occasionally, it is done by companies that then disappear. I think the Bill helps to address that. Do you not?

Peter Swabey: Absolutely, yes.

Q246 Tom Tugendhat: So it does have some environmental effect.

Peter Swabey: Yes, you are right. I had not thought of that aspect of it—I was thinking in terms of the reporting that companies do—but yes, in terms of tracking down defaulting companies, I think it will help you.

Q247 Tom Tugendhat: Would you agree, then, that it may also support other areas of governance: the ability to oversee, for example, different areas of employment, human trafficking or whatever it might be, and to go through companies that set up and disappear far too quickly?

Peter Swabey: Yes, absolutely. Removing the ability for companies to go bust one day and reappear the next with a very similar name and very similar directors, but without all those tedious debts that they used to have, is one of the really important issues.

Tom Tugendhat: Exactly—phoenixing.

Peter Swabey: I think that is really important.

Q248 Tom Tugendhat: I am very glad you are supportive of that. I think this makes a huge difference; as you rightly say, it is one step on the journey, but it is still a huge difference from where we are.

I also wondered if you could talk a little bit about whether you think it is going to help with economic crime. Clearly, although I am not a BEIS Minister, one of my responsibilities is fraud. The presence and disappearance of corporate entities is, I am afraid, something that has caused more than its fair share of fraud. How do you think the Bill might be able to help with that?

Peter Swabey: I think the Bill will help with that by making it possible to have greater confidence in the directors who are responsible for those companies actually being real people. We were talking a little while ago about the ease with which you can set up a company, and the limited verification of directors that goes on. We have a verification process in the Bill that will help to ensure that those people are actually the people you believe them to be, and that there is an address where you can get hold of them and, particularly, where the forces of law enforcement can get hold of them should they need to. That is a real strength.

Tom Tugendhat: I am very grateful, not only for your evidence today, but for the work you do and the oversight you bring. It does make a huge difference, and I am very grateful indeed for it. Thank you.

The Chair: Thank you very much. If there are no further questions from Members, we will thank the witness for his evidence and move on to the next panel. Peter, thank you very much for your time; we greatly appreciate it.

I am going to suspend the sitting, because we have a little bit of time before the next evidence session, and the witness is not in the waiting room yet because she is giving evidence via Zoom.

2.38 pm

Sitting suspended.

Examination of Witness

Catherine Belton gave evidence.

2.41 pm

The Chair: I restart the sitting with our sixth panel . We will now hear oral evidence from Catherine Belton, journalist and author. Catherine is appearing via Zoom. We have until 3.10 pm. Catherine, could you please introduce yourself for the record?

Catherine Belton: Hi, I am Catherine Belton, author of "Putin's People". I am a reporter with *The Washington Post.*

Q249 Seema Malhotra: Thank you very much, Ms Belton, for joining us to give evidence today, and thank you for all you do as well. In terms of the scale of economic crime and how much needs to happen nationally and internationally, what gaps do you see in the legislation as it currently stands that stop the UK from being able to tackle economic crime on the scale that we need to?

Catherine Belton: There is a very simple answer to this, though I should basically preface all my answers by saying that I am not an expert on the Bill like some of my colleagues, such as Oliver Bullough. I have not studied it deeply, but what I can speak to is the urgency

of these reforms, because of the threat posed to our national security. There is also a dire need to push through the anti-SLAPP legislation.

All these deep-pocketed oligarchs are essentially taking advantage of our system and are able to outspend not just journalists but financial watchdogs acting in the public interest. They are outspent and intimidated out of pursuing any real investigation into financial misconduct. They know from the outset that they may lose.

You only have to look at the example of the Serious Fraud Office and its battle against ENRC, which was once listed on the London stock exchange, then delisted and owned by a trio of Kazakh fraudsters essentially. The amount they spent annually on legal cases in the UK was £89 million, which is over the annual budget of the Serious Fraud Office. Though the Bill is of dire importance, without greater spending and funding for our public watchdogs—the National Crime Agency, Serious Fraud Office and other entities—we are going to be stymied from the get-go.

Q250 Alison Thewliss: Thank you very much, Catherine. Could you tell us a bit more about why the UK has become the destination of choice for people wishing to use corporate structures for money laundering and other purposes? Could you tell us about the impact that has internationally?

Catherine Belton: The UK, like many other countries, has welcomed capital from places such as Russia with open arms for the past 20 years. It is certainly a place that Russian oligarchs have flocked to, not only because they want to be part of the UK establishment but because they have clearly taken advantage of our lax legislation and regulation compared with the US, for instance. If you are listing a company in the US you face the Sarbanes-Oxley regulations, and you have committed a crime if you are found to have lied on your financial disclosures. Here, there seem to be so many loopholes; people can get away with everything.

We only have to look at our Companies House institution to see that there is very little scrutiny of filings that people are making. We have all heard the obvious examples of people not disclosing anything. I think you are a great expert in the use of limited liability partnerships by Russian money launderers. UK LLPs have seen tens of billions of dollars' worth of illicit Russian cash move through them over the last decade or so.

Most of those money laundering schemes have been overseen by the Federal Security Service of the Russian Federation. It has a money laundering department called Department K, which has overseen all those schemes and has had an involvement in each and every one of them. I am told by security officials in Moldova—where one scheme used LLPs to move tens of billions of dollars of cash into the UK—that essentially the schemes are used not just by Russians seeking to move money to evade customs and tax, but by the Russian Federal Security Service itself, because it sees the greater flows of cash as cover for it to move its strategic cash into our jurisdiction.

I must again point to the need for SLAPP legislation and ask whether that could, or should, be attached to the economic crime Bill as it stands. If we do not enable journalists and financial watchdogs to look at those entities without fear of getting crushed by enormous lawsuits that will cost more than anyone's budget allows, then we are going to be open to this type of abuse of our system forever. It was only July when Dominic Raab, the Justice Secretary, finally and wonderfully—it seemed like a miracle at the time—forwarded that anti-SLAPP legislation. It was going to allow for an early dismissal mechanism for cases that were clearly an abuse of the law, and aimed at intimidating journalists and financial watchdogs out of reporting matters of public interest—whether financial misconduct or something else. There has been a great deal of turmoil in Government since then, but we are seeing that SLAPP cases have very much not gone away.

The esteemed Chatham House think-tank recently had to remove the mere mention of a Tory donor, who had previously been convicted of money laundering, from a report on the abuses of the UK system by kleptocrats. The past of our Tory donors is something that we should know about, yet Chatham House had to erase its mention of that donor from its report. Staff looked into how much it was going to cost to defend, even though it was clearly public interest reporting. There was not really much to dispute about it, but they found it was going to cost them £500,000 before the case even got to trial, which means there is something so deeply wrong with our system, and we cannot even begin to combat any of these issues without having these anti-SLAPP measures in place. That is not just for journalists but for the Serious Fraud Office and for other public interest watchdogs.

Q251 Alison Thewliss: Thank you; that is very helpful. I just wanted to ask about something else. Bill Browder had suggested a sort of "adverse costs" amendment, to prevent law enforcement companies from not being able to afford to take a case against these people. Would you support that?

Catherine Belton: Yes, for sure. Obviously, the companies pursuing these abusive cases should face having to carry the full cost of the case. I have a colleague at the Foreign Policy Centre, Susan Coughtrie, and she and Charlie Holt of English PEN have been working on a new Bill for this SLAPP reform, and I very much recommend that you speak to them as well. That Bill would provide even tougher requirements for cases to really show a likelihood of success.

What the Ministry of Justice proposed was like a three-step set of criteria for judges deciding whether a SLAPP case is a SLAPP case, and whether it should be dismissed before the costs racked up too highly. One of those criteria was whether the case being pursued had a realistic chance of success and it is very clear that this type of criterion needs to be toughened up. I certainly recommend that you speak to Susan Coughtrie at the Foreign Policy Centre about ways in which to do that.

However, I guess that my question to you would be: "Do you think there is a significant possibility that the anti-SLAPP Bill could be attached to the Economic Crime Bill? Is that something that will this speed up?" It is so vitally needed—more than ever. I mean, it is completely—

The Chair: Catherine, I am really sorry to interrupt you—

Alison Thewliss: I think my colleagues and I are interested in hearing this.

The Chair: It is a very important question, but unfortunately we have to stick to Members asking witnesses questions. However, I am sure that you can put those questions to our esteemed Members in other forums.

I will move on to James Daly now, because there are a couple of other Members who are keen to ask questions.

Q252 James Daly: Catherine, thank you very much for giving evidence; what you have said is very helpful. You have investigated these matters and looked into them. You have talked about Companies House, which is a central part of this legislation, and we have talked with other witnesses about what needs to be done there.

However, I just wanted to ask about money laundering. To make a very straightforward point, you obviously need a bank. If you have got a fake financial institution, or a legal entity set up for criminal purposes, you need a means of transferring money, either out of that body or into it. Could you talk about any thoughts or experience that you have, including regarding anything that you have investigated, that touches on that point and on what we can perhaps do to address it?

Catherine Belton: I think it goes back to this issue of LLPs and how these limited liability partnerships have really become, over the last two decades, the vehicle of choice for Russian money laundering schemes in particular—at least the ones that I have studied.

There was the "Moldovan laundromat", which used LLPs based in the UK, including in Scotland, to move $14 billion out of Russia in illicit cash in the space of four years. That was part of a much bigger process through Danske Bank; I think the total volume of illicit Russian cash coming through Danske Bank was in the realm of $200 billion in just over a decade. That is obviously enormous amounts of cash.

However, it just goes down to the weakness of LLPs and the system that we have created, in which you can have companies established that do not even need to have any real business in the UK; they do not pay taxes here and therefore they did not have to file any accounts. They were not really having to file any beneficial ownership, either. That really means that there has been a huge gap in our legislation. Obviously, the Companies House reform will hopefully provide for more disclosure of beneficial ownership, but there are still so many ways for people to get around it, because Companies House really does not have proper funding to check whether beneficial ownership is being reported properly.

Obviously, the banking system is now under much greater pressure to investigate the source of funds, but while the banking system has become a much more complicated place for people to move illicit money through, the same demands are not placed on hedge funds or private equity funds. There are much less stringent requirements on those types of entities to disclose who their clients are and where the money is coming from. We only have to look at who the major backers of Brexit were. Hedge funds and private equity funds were major donors during the Brexit referendum, and we really had no clue where they were getting the money from.

The Chair: Catherine, we really want to hear from you and make sure that all our other members get to ask questions. We have two other members after James who want to ask questions, so please keep your responses as brief as possible, with all the information that is possible to get across.

Q253 James Daly: On top of all the very important points that you have made, I think one of the things that I am left with from your evidence, Catherine, is that we have to ensure that the information-sharing links between Companies House and financial institutions are strengthened. Companies House was described as being a passive organisation at the moment, but what you are saying is that that has to change and there has to be a close link with financial institutions, so that these relationships are attacked throughout the criminal justice system. Am I right?

Catherine Belton: Yes, that is exactly right.

The Chair: Thank you very much.

Q254 Liam Byrne: Catherine, I think I speak for all of us in saluting you for the courage you have shown in revealing what you have revealed. How important was it to President Putin that people around him—his friends and allies—were able to move money so easily out of Russia through UK corporate structures?

Catherine Belton: I think this has become a key way in which the Putin regime is able to extend its soft power and influence and undermine our democracies. That is very clear, because you can have vast flows of pretty much untraceable money, especially in the case of LLPs. Once it goes through a UK LLP, no one has any clue where any of that cash has gone. Vladimir Putin believes that the weakness of the west lies in our incessant drive for profits and the belief that the more Russian cash there is in the UK, the more Russia will have to follow our corporate governance standards.

Unfortunately, there has been a great lack of corporate governance standards, which has allowed our system to be corrupted. It has really laid bare how powerless some of our oversight bodies and enforcement agencies are. You only have to look at the National Crime Agency's investigation into the source of the donation that Arron Banks gave to the Brexit campaign to see just how feeble our institutions are, at a time when we really need to be empowering them. When the NCA had to look for the source of the £8 million, it could not go any further than the Isle of Man company co-owned by Arron Banks. We do not know where the money came from.

Q255 Liam Byrne: Let me just crystallise this. Are you saying that allies of President Putin used UK corporate structures to move money out of Russia?

Catherine Belton: Yes, I am, of course. Obviously, that has an agenda, especially when the UK Parliament's own Intelligence and Security Committee has pointed out the very close links between Russian business, the Russian state and Russian intelligence. Basically, Russian businesses very often have to act as arms of the Kremlin or follow Kremlin orders. Russian businessmen have to follow Kremlin orders in order to hold on to their wealth. It is not just money that is coming into our system and making everyone rich; it is money with an agenda, and that agenda can be to undermine our democracy.

Q256 Liam Byrne: I do not know whether you can see it, but the Bill is called the Economic Crime and Corporate Transparency Bill. How credible do you think corporate transparency in this country will be if we do not amend the Bill to include the protection of journalists like you, who have worked so hard and bravely to reveal the truth only to face legal action in English courts that sought to silence you?

Catherine Belton: I think it will be half-baked if it does not include that amendment. Obviously, it is great to have better laws, but when financial watchdogs, public oversight bodies and journalists are still unable to cast a light on some of the financial transactions of the super-rich, from fear of these crushing lawsuits, it means that you have a system that is only half working. Law enforcement relies, and has relied in the past, to a great degree on journalistic investigations, including for instance by the OCCRP; its reporting has led to some very important cases.

Q257 Dame Margaret Hodge: I will ask one question, Catherine, because many have been asked. I join with others who have met you, or read your book, and are full of admiration for your courage. For those who have not, and do not know your story, will you quickly tell us what happened to you in relation to the SLAPPs, and why it is important that we try to tackle those in the Bill? You can do it very briefly; I am conscious of time.

Catherine Belton: I wrote a book called "Putin's People", which was about Putin's rise to power, the continued role of the KGB and how Russia was using oligarchs—Russian businessmen—to further Russian influence in the world. I was writing precisely about how many of the oligarchs, such as Roman Abramovich, were essentially forced to act as arms of the Kremlin, because otherwise their wealth could be jeopardised. Putin's hold on power was such that anybody who did not obey his orders could face jail or the seizure of their companies.

Abramovich was very upset when I suggested in the book, quoting three former associates, that he had acquired Chelsea football club on Putin's orders, in order to acquire soft power and influence in the UK. That, I believe, was public interest reporting. The allegation had been put to his spokesperson, and the response was in the book. He announced that he was suing me personally and HarperCollins—a statement that was swiftly followed by lawsuits from three other Russian billionaires, and then one from the Kremlin oil company Rosneft. The cases were very difficult to grapple with, because there were so many of them all at the same time.

Q258 Dame Margaret Hodge: How many were there altogether?

Catherine Belton: Five cases. It cost my publisher £1.5 million to deal with the cases, and they got only to the preliminary hearing stage before they were either settled or withdrawn. Rosneft's case had to be withdrawn completely because there was no basis for any of its claims. The judge found that one of Abramovich's claims was completely exaggerated, which allowed us to make minor amendments and avoid the enormous cost of having to continue to fight. Even though we believed that we had a very strong public interest case, our lawyers told us that it would have cost, at a minimum, £2.5 million to continue to defend the great deal of reporting that had gone into my book. It would have taken over a year. Abramovich had twice filed the exact same claim simultaneously in Australia as well, even though he had no business there, and therefore no reputation to protect.

Nineteen media rights organisations said that the cases against "Putin's People" and my publisher, HarperCollins, bore all the hallmarks of a SLAPP case—that is, they were designed to intimidate the publisher, and they were abuse of process, particularly in the case of Abramovich.

Yes, the judge found that one of his claims was exaggerated, which, according to the Ministry of Justice's proposal for the anti-SLAPP law, is one of the criteria under which SLAPP cases should be thrown out of court at an early stage. It introduced three criteria. One was that meanings were being inflated or exaggerated by a claimant; that was clearly the case for most of the oligarchs pursuing me. In Rosneft's case, the judge found that what I had written about Rosneft, the Kremlin oil company, was not defamatory at all, yet my publisher had to spend hundreds of thousands of pounds just to get to the stage of a preliminary hearing, to get it thrown out of court. The proceedings demonstrated how many other UK media organisations had been censoring themselves because they did not want to deal with those enormously costly lawsuits—

The Chair: Catherine, I am really sorry, but I have two more people waiting to ask questions and there is only five minutes. I am so sorry to curtail you.

Q259 Seema Malhotra: I want to come back on how we can take practical steps to tackle this. I think you mentioned the Foreign Policy Centre. Are there more specific measures we could take in the Bill?

Catherine Belton: In July, the MOJ forwarded anti-SLAPP legislation. Unfortunately, because of the chaos of the last couple of months, that has not really gone anywhere. That legislation could be attached, as is, to the Economic Crime and Corporate Transparency Bill. The Bill as drafted slightly toughens the criteria for claimants; they have to prove that there is a significant likelihood that they have a real claim. You should speak to the FPC to weigh whether it is worth pursuing their draft laws as a better model, or whether it is enough to use the one already drafted by the MOJ. They had extensive consultations on that, but now it looks like all the momentum has gone. It is astonishing to me that this is not being pursued as a priority, given the situation we are in. It is absolutely vital that we shine light on individuals who may be operating on behalf of Putin to undermine western support for Ukraine, and to undermine our resolve this winter as we face enormous cost of living hikes. It is really important.

Q260 Tom Tugendhat: Catherine, thank you very much for giving evidence to what must be your 20th or 30th Committee in the last 12 months. I am very grateful for the work you do. Could you tell us how you think the reforms to Companies House will improve oversight of listed finance? As you say, it is a building block.

Catherine Belton: You say that this is my 20th or 30th time giving evidence, but unfortunately, it is not. I have only spoken on SLAPPs before. I will leave the realm of Companies House reforms to people who are more expert on it than me.

Tom Tugendhat: Okay, thank you.

The Chair: If there are no further questions from Members, thank you very much, Catherine, for taking the time to speak to us.

Examination of Witness

Professor Jason Sharman gave evidence.

3.9 pm

The Chair: Last but not least, we will hear oral evidence from Professor Jason Sharman, professor of politics at the University of Cambridge. We have until 3.30 pm. Professor Sharman, could you introduce yourself and give us your background for the record?

Professor Jason Sharman: My name is Jason Sharman and I am a professor of international relations at Cambridge University. I study international money laundering and corruption, often by impersonating would-be corrupt officials, money launderers and terrorist financiers.

Q261 Seema Malhotra: Thank you for coming to give evidence. Does the Bill go far enough in reducing the attractiveness of the UK as a destination for economic crime? You obviously have an international perspective, and I am keen to know whether you are seeing new behaviours that it would be useful for us to understand. Are the measures sufficient for tackling the challenge we face?

Professor Jason Sharman: I would not want to make the perfect the enemy of the good. The legislation is a positive step, but I watched the earlier testimony, and I agree with people who say that the proof of the pudding is in the enforcement. I study politics and international relations; I am less interested in the rules on the books and more interested in what difference they make, if any. If you are a criminal—a money launderer—you do not have to be very original. You do not have to try new things. Things that worked 10, 20 or 30 years ago still work today, so there is no need to change too much.

Q262 Seema Malhotra: On the attractiveness of the UK, you have mentioned enforcement, but from your research in this area, what would you highlight as being the weakest points in enforcement?

Professor Jason Sharman: The UK has a combination of a good reputation and lax enforcement. From the point of view of a launderer, that is a bonus: you get double. You get the appearance of probity—other people have mentioned the use of UK companies to open foreign bank accounts—with not much scrutiny and even less enforcement. Transparency is all good and well, but more information by itself does not lead to stronger action against money launderers or corrupt officials.

Q263 Alison Thewliss: There has been a lot of discussion about anti-money laundering supervision, and the effectiveness of the agencies that the Government expect to carry out those duties. Are they the weakest link in the chain, and could more be done to tighten up that anti-money laundering supervision, to shut the door, and to stop these companies from beginning their business here?

Professor Jason Sharman: There is certainly more that could be done. Some of it has been mentioned by other people; more money is the obvious one, but that may be necessary but not sufficient. In some ways, the career structure and career incentives for people who work in these agencies needs reviewing: if they start an investigation and it goes well, they get a small bonus to their career. If they start an investigation and it goes badly, they get a very big, indelible black mark, so in terms of career progression, it is safer for them not to investigate things.

One of the main sources of support has not been fully used: there are a lot of people outside the formal enforcement agencies who are very keen to help in this cause, including journalists and those in non-governmental organisations, as well as in the for-profit sector. That potential has not been tapped, so there are certainly things that the Government and the state could and should do, particularly in terms of regulatory agencies; but the area where I think it is possible to make most progress is probably beyond that.

Q264 Alison Thewliss: That makes sense. Certainly, there have been lots of times when I have been in rooms with a group of people who have solutions to tackle this, and Government should be doing more to make sure that they are listened to. Could I ask about the abuse of limited partnerships, secrecy jurisdictions and things like that? Could more be done to tighten up those rules? It feels as though there is an awful lot of abuse of those corporate structures, and very little scrutiny.

Professor Jason Sharman: It depends what you mean by "secrecy jurisdiction". A person who has studied this for a long time said this: "People are not surprised when I tell them that the most important tax haven in the world is an island. People are surprised when they hear that the name of that island is Manhattan. People are not surprised to hear that the second largest tax haven is a city on an island. The city is London, and the island is Great Britain."

We recently formed a shell company with co-authors Michael Findley and Dan Nielson in the United States. It took 137 seconds to incorporate that company. Here, it would probably take you a little longer—it might take you as long as 10 minutes—but you do not really have to show ID in any case, so the barriers are pretty low. If you do not want to use anything as fancy as a limited liability partnership, you can just use a plain old company, and that works pretty well for holding a bank account overseas.

Q265 Alison Thewliss: The Government have talked up the benefits of being able to incorporate companies fast. Do you think there needs to be a bit more grit in the system to allow for scrutiny, rather than speed?

Professor Jason Sharman: I think so. For me, it is telling that in jurisdictions for which incorporations are their lifeblood, such as the British Virgin Islands, it is much slower to incorporate. It takes close to two weeks to incorporate in the British Virgin Islands, and it takes about $1,000. The British Virgin Islands get half of their Government revenue from incorporation fees. They have a real interest in making sure their company registry works well. No one likes red tape and filling out forms,

but the idea that you might have to spend a couple of hours instead of 15 minutes, or £50 instead of £12 is, to me, not unreasonable.

Q266 James Daly: Thank you for that, Jason. You have given an example already, but I was wondering about the international context. We have Companies House. Can you give me an example of the equivalent in European countries or America and the difference you perceive between our Companies House and theirs?

Professor Jason Sharman: I feel sorry for British Companies House, because it has been given a lot of work without the resources to carry it out. The mismatch between what is expected of an institution and the resources it has to achieve those ends is greater. Company registries are passive, archival organisations.

Q267 James Daly: That was my point, really. We have accepted the point about resources, but Companies House was described by one of the directors we heard from as a passive organisation in respect of these issues. I just wondered whether in other jurisdictions, say France or Germany—and I don't know the answer to this question—they have that view of their equivalents, or do they view theirs as a proactive organisation that has to investigate the things we are talking about?

Professor Jason Sharman: No. The UK is typical.

Q268 James Daly: Forgive my naivety, but it usually takes a company or a legal entity about 15 minutes to register with Companies House. The intention behind that is for money laundering purposes. I am assuming—forgive me if I am wrong—that when Fred Bloggs and Co. was set up, the people who did so had to then open a bank account in the name of Fred Bloggs and Co. in order to transfer the money to this jurisdiction. Is that correct?

Professor Jason Sharman: Yes and no. Generally, yes, but if you want to own property, you never have to touch the banking system. If you want to own a yacht, you can set up the shell company and earn, just like that. You can break sanctions and own property with a shell company, even without a bank account.

Q269 James Daly: Just in general, using the banks as an example, should we be looking to put in the Bill requirements for them to play their part in the partnership to tackle money laundering?

Professor Jason Sharman: Again, banks have had these requirements to establish the beneficial owners for a while. I think this is good, but it is the enforcement that is key there.

Q270 Dame Margaret Hodge: Following on from that, I completely take the point about enforcement, but would a failure to prevent power make any difference, assuming it was enforced?

Professor Jason Sharman: I probably differ from many of the other people who have spoken in that I am not a fan of failure to prevent. I think that the goal of these laws is to make life hard for bad people without making life hard for good people at the same time. To the extent that you have really onerous regulation or weaken the presumption of innocence, that is something of an own goal or collateral damage. Before you put people in jail, you should be pretty serious about it. There should be a mental intention there—a mens rea.

I am not really comfortable with the strict liability. There is strict liability in anti-bribery, which means I have to do pointless anti-bribery training every year for the University of Cambridge. It does not do me any good and it does not stop corruption, but it is one of the things that Cambridge feels it has to do because of the strict liability. Again, it is a cost to society that is not included in legislation or in regulatory impact assessments.

Q271 Dame Margaret Hodge: Because time is limited, I will not engage with that, but it is a really interesting view. I want to quote something to you that I think you said—apologies if I have got it wrong. You said:

> "These host states now have a duty to block, trace, freeze, and seize these illicit funds and hand them back to the countries from which they were stolen."

I do not know who you were referring to there, but, in our case, with the illicit Russian assets frozen in the UK, how do you suggest we seize those funds and how can we repurpose them?

Professor Jason Sharman: It depends. With the Russian assets that are criminal assets, eventually you need to go to a court of law to do that—

Q272 Dame Margaret Hodge: That is very hard—you know that.

Professor Jason Sharman: Indeed. That is hopefully something that the Bill will do something to correct. It may be different if you are talking about sanctions and the money that is currently frozen. It would depend. If we are talking about criminal money, there is an anti-money laundering process of confiscation—civil and criminal.

Q273 Dame Margaret Hodge: Sanctions.

Professor Jason Sharman: Sanctions. I think you cannot. There is proper process. As I understand it, unless there is a formal state of war that obtains between two states, on what basis are you going to take away—

Q274 Dame Margaret Hodge: That is the point. Did I quote you incorrectly, then?

Professor Jason Sharman: No, you quoted me correctly, but that is money that was stolen in one place and moved to another place, and you have to prove that it was stolen. That is different from saying, "You are a Russian oligarch and we are going to freeze your funds." It is very different.

Q275 Dame Margaret Hodge: I accept it is different from a Russian oligarch, but according to Bill Browder we have something like £30 billion of Russian state assets sitting frozen at the moment. Of course, it needs to change. I totally accept that we are not at war with Russia, so those powers do not exist. Do you think it is appropriate to introduce any new powers that would enable us to seize as well as freeze those assets and then repurpose them for the reconstruction in Ukraine? There is certainly a desire across the political divide here in the UK to try to achieve something along those lines. Do you think that is possible?

Professor Jason Sharman: I would not shed a tear if Russian oligarchs lost their assets.

Q276 Dame Margaret Hodge: This is the state I am talking about.

Professor Jason Sharman: Okay, for the Russian state. In that case, I think that would be wonderful. I know Browder mentioned earlier central bank assets. But, again, there is a precedent here. To what extent would foreign Governments put money overseas? There is a lot of concentration on Russia as a corrupt regime, which I think it is, but it has plenty of company, many of which have assets in the UK.

Q277 Dame Margaret Hodge: The Italians appear to have conquered this—I do not know if you know about that—through the stuff they have done on the mafia. The Canadians appear to have introduced a new power that might take them there. The Americans are trying to think about it. The Europeans are. There is quite a lot of thinking. I am just picking your brain. Is there anything you have done in this field that could add value as we try to think about it?

Professor Jason Sharman: I think not, and I think that the British Government, at least when it comes to sanctioning oligarch assets, which I realise are different from state assets, are in a bind. I think they will have to return those assets to the oligarchs and that they may have to pay damages to the oligarchs. That would be a terrible injustice, but I really worry about what the end game for sanctions is.

Q278 Liam Byrne: Jason, you are a political scientist. Why are we in this position where we have such weakness? Why has our political system failed to address these weaknesses for so long?

Professor Jason Sharman: This is probably a typical social science answer, but there are quite a few reasons that make it difficult, because no one corrective, in and of itself, is going to fix the situation. There have been solutions, such as the persons of significant control registry, the unexplained wealth orders and so on, where it has been like, "This is the thing that will unlock the problem". But instead it is a combination. First off, it is appropriately difficult to take away people's property. Secondly, the bureaucratic incentives do not favour it. You have this very risk-averse culture within law enforcement agencies. Thirdly, as I said, there is a failure to harness the incredible investigative resources that lie outside the state, in the not-for-profit sector but also in the for-profit sector.

The Chair: Before the right hon. Member for Birmingham, Hodge Hill asks his next question, I remind him that our line of questioning has to relate to the legislation in front of us. With his extensive parliamentary experience, I know that he will be able to do that.

Q279 Liam Byrne: I am grateful for those guard rails, Ms Bardell. At the moment, the Bill has a lacuna, which is any protections around safeguarding politicians from dirty money. We are not covered by suspicious activity reporting, for example. Some would argue that the £1.2 billion that has flown into British politics over the past 10 years from people with all kinds of motivations and ambitions may be one of the reasons that our political system has not acted hitherto to stop this corruption, and that should be something we fix in the Bill. What do you think about that?

Professor Jason Sharman: I think that, as Catherine Belton said earlier, certainly volumes of money into politics have something to do with it, but even if you could come up with a perfect solution to that problem, it may not actually make too much difference in terms of interdicting money laundering and corruption funds into this country. That is not to say it is not worth while doing, but there is this constant phase of saying, "If only we do x, we'll really be able to fix the problem." I think it is something where modest progress, incremental progress, is what we should expect, and we have to do lots of different things right in order to achieve that progress.

Q280 Liam Byrne: So it could be part of the solution.
Professor Jason Sharman: Yes.

The Chair: Thank you. I move finally to Tom Tugendhat.

Q281 Tom Tugendhat: Professor, thank you very much indeed. I am grateful to you for reminding us that Magna Carta guarantees private property in various ways. Various legal jurisdictions, including the United States, Italy, the European convention on human rights, European property law and, indeed, many other jurisdictions around the world have all maintained and guaranteed it, which makes this so difficult. That said, do you agree that it is important to try to find out who owns what, so that we can at least take action where we have a legal ability to do so, and does this Bill help with that?

Professor Jason Sharman: Yes and yes. I think this is a modest positive step, but, given the track record of legislation, I would say that it has to be implemented. That is where the problem has been heretofore, and I can possibly anticipate that it may be the problem here, too. If you say, "You have to identify yourself as the owner of a company," and you have entries in Companies House saying, "My name is XXX XXX," and that does not get challenged, then more information is not necessarily better if that information is junk.

Q282 Tom Tugendhat: No, that is true, and that is why the work being done between Companies House and the agencies is so important—to ensure that Companies House goes from being a pinboard to being a regulator and a check. That is a very important move. It is not the same as the FCA or a regulator of that kind, but at least it is beginning to verify in terms of ID and so on. How much of a difference do you think the overseas territories and Crown dependencies verifications have already made?

Professor Jason Sharman: I mentioned briefly that some of my research, together with Mike Findley and Dan Nielson, has been to impersonate would-be money launderers and look to set up companies in various jurisdictions. It is much harder to set up companies, and the standards are much more rigorous, in the Cayman Islands, the British Virgin Islands and the Crown dependencies than in the UK. Of the UK jurisdictions, the UK is the easiest place to set one up, so I think the UK could learn a lot from its overseas territories and Crown dependencies. I noticed with interest that a couple of the other witnesses here said the same.

Q283 Tom Tugendhat: It is clear that there is a huge number of changes. You will know about the work that we have done in the past on the Foreign Affairs Committee

[Tom Tugendhat]

and now in Government on trying to clean this up. This is something that, sadly, has lasted for the best part of 100 years, with no Government really making any effort to do anything about it until now. It is interesting that we are here again with a number of registrations, many of which were warned about in the 1970s, '80s, '90s, noughties and, now, the '10s and '20s. I am glad that we are doing something about it. Do you think that Companies House is going to be able to do that if it has the proper resources, or is it going to require other agencies as well?

Professor Jason Sharman: No, I do not think Companies House will be able to do it. Its main function is passive and archival; it is a library mainly. I think it is just not in its DNA to be otherwise. I think most of the solution for this is in the private sector. I am talking about properly regulated, supervised and audited corporate service providers. I co-authored a report 10 years ago with the World Bank called "The Puppet Masters", and that was overwhelmingly the conclusion that we came to.

Q284 Tom Tugendhat: Would you say that the extra powers given to organisations such as the Solicitors Regulation Authority and its equivalent in Scotland are important to ensure that such regulators actually do have teeth? At the moment, as you will know, the fines form both of them are very low. This would, one hopes, connect to the work that we did in 2017 or 2018—I cannot remember exactly when—for the report "Moscow's Gold", where the Foreign Affairs Committee highlighted the role of enablers, not just regulators.

Professor Jason Sharman: I completely agree. I think, even more, that HMRC, as the regulator for corporate service providers, those enablers, has been completely missing in action. If there were one bit of the public sector that I would change, repurpose or fund, it would be to get HMRC to take its duty to regulate and penalise corporate service providers seriously. It has just been completely missing in action so far.

Tom Tugendhat: Thank you very much.

The Chair: If there are no further questions from Members, I want to thank the witness for his evidence. Professor Sharman, thank you very much for taking the time to come and speak to us.

Ordered, That further consideration be now adjourned. *—(Nigel Huddleston.)*

3.29 pm

Adjourned till Tuesday 1 November at twenty-five past Nine o'clock.

Written evidence reported to the House

ECCTB04 Letter from Tom Tugendhat MP, Security Minister, Home Office, and Jackie Doyle-Price MP, Minister of State at the Department for Business, Energy and Industrial Strategy, dated 24 October 2022, re: Government Amendments

ECCTB05 British Property Federation (BPF)

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Fifth Sitting

Tuesday 1 November 2022

(Morning)

CONTENTS

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 5 November 2022

The Committee consisted of the following Members:

Chairs: † Mr Laurence Robertson, Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Hollinrake, Kevin *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Mann, Scott *(Lord Commissioner of His Majesty's Treasury)*
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† attended the Committee

Public Bill Committee

Tuesday 1 November 2022

(Morning)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

The Chair: I have a few preliminary reminders. Please switch electronic devices to silent. I am afraid no food or drink is permitted, other than water. *Hansard* colleagues will be grateful if Members could email their speaking notes to hansardnotes@parliament.uk; alternatively, pass them to the *Hansard* colleague in the room.

We now begin line-by-line consideration of the Bill. The selection list for today's sittings is available in the room. It shows how the selected amendments have been grouped together for debate. Amendments grouped together are generally on the same or a similar issue. Please note that decisions on amendments do not take place in the order in which they are debated, but in the order in which they appear on the amendment paper. The selection and groupings list shows the order of debates. Decisions on each amendment are taken when we come to the clause to which the amendment relates. Decisions on new clauses will be taken once we have completed consideration of the existing clauses. Members wishing to press a grouped amendment or a new clause to a Division should indicate when speaking to it that they wish to do so. As Dame Margaret Hodge is not here, I call Seema Malhotra to move amendment 77.

Clause 1

The registrar's objectives

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I beg to move amendment 77, in clause 1, page 2, line 10, at end insert—

'*Objective 5*

Objective 5 is to act proactively by—

(a) making full use of the information, intelligence and powers available to the registrar in order to identify issues of concern, and

(b) sharing information about any issues of concern with relevant public bodies and law enforcement agencies.

(2) In this section, an "issue of concern" includes—

(a) inaccurate information,

(b) information that might create a false or misleading impression to members of the public,

(c) an unlawful activity.'

I will come back with further mention of the clause later. The amendment was tabled by my right hon. Friend the Member for Barking—*[Interruption.]* Who has just arrived—

The Chair: Order. Will Members take their seats quickly and press on?

Seema Malhotra: My right hon. Friend will want to speak to her own amendment, but I will lay out a few comments. She is right that we need Companies House to become a more active agent in our efforts to combat economic crime as a result of the Bill—I am sure the Minister will agree that we do not want an economic crime Bill No. 3 in the House, and nor do we have the time for delay in sharpening our response and defences against economic crime.

In evidence given to the Committee, Thom Townsend from Open Ownership stated that the clause—or the important objectives laid out in it—

"seems like a ridiculously low bar."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 63, Q136.]

He is absolutely right. I am sure that all Members listening to that evidence agreed. My right hon. Friend will speak to her own amendment, but we very much support it, because this House needs to send a clear message about our expectation of a proactive role for the registrar—not just a reactive role.

Why is it so important to do so now? As Companies House now begins its transformation to reform its systems, processes and capabilities, part of that will be about its culture, and in line with what this House will expect, the proceedings of this House and this Committee will be important in sending that message. It is our job to ensure that the objectives and powers are very clearly laid out in legislation, so that there is no confusion over our expectations.

The fifth objective in the amendment would raise the "ridiculously low bar" of the first four objectives, as stated by Thom Townsend, from minimising risk to proactively identifying suspected uses of the register for criminal purposes and acting accordingly. As the Secretary of State herself stated on Second Reading:

"We want to ensure that there are more restrictions on who can register with Companies House so that we prevent the abuse of the regime."—[*Official Report*, 13 October 2022; Vol. 720, c. 285.]

But I am sure that my right hon. Friend the Member for Barking will want to speak to her own notes on this. Thank you, Mr Robertson, for giving me the opportunity to do so.

Dame Margaret Hodge (Barking) (Lab): Sincere apologies for being late, Mr Robertson. I want to start by welcoming the Under-Secretary of State for Business, Energy and Industrial Strategy, the hon. Member for Thirsk and Malton, to his role. I have worked very closely with him over the past few years, and it is great to see somebody who understands the issues sitting in his seat. I hope that we can have very positive engagement with him while considering the Bill.

Like the hon. Gentleman, I welcome the reforms. The amendments that we have tabled, including this amendment, are all designed to improve the quality of the legislation that we pass. I hope that they will be taken in that spirit. Having been a Minister in my time, I am very aware of the fact that when amendments are tabled by hon. Members, whether they are on the Opposition or the Government Benches, there tends to be a mood of "reject" from the officials advising the Minister. I simply say to him that many of the amendments that we are putting forward, like this one, are really there to improve the Bill. They are not about trying to raise contentious issues. Perhaps as we proceed, we will come across more

contentious issues, but this amendment is not contentious; it is simply to secure an improvement. It is not party political, and I think it reflects common sense. I hope that the Minister will feel able to accept this particular amendment.

Why have we tabled the amendment? I draw the Minister's attention to the Government's own factsheet on the Bill, which states that broadening the powers of the registrar of Companies House is designed—that is my word—so that the registrar can become a "more active" gatekeeper over company creation and a custodian of more reliable data. Companies House itself has six strategic goals, one of which is to combat economic crime through active use of analysis and intelligence. We have there a commitment from Government and from the organisation itself that it should take a proactive role in using the information that it has.

Our amendment would embed in legislation the Government's intent and the organisation's goals. It would ensure that that intent and the goals were on the statute book and therefore implemented in the future. Too often, as the Minister knows, we have organisations and bodies that have powers but simply do not use them. We can think of His Majesty's Revenue and Customs and its oversight of company service providers as just one example of where there is a power but, without emphasis on that duty in legislation, it tends to get ignored. The aim of our amendment is just to ensure that what is a power becomes a strong duty.

Why does that matter? Companies House holds a massive amount of data: information about 4.5 million companies, with more than 800,000 new companies incorporated each year and more than 10 million documents filed annually. That data is full of red flags that should be proactively investigated to ensure that we really bear down on economic crime. We want to pursue the wrongdoers, and if we get that stronger investigation and it is known that Companies House does use its proactive powers, that is a good preventive measure because it is much less likely that the ne'er-do-goods will indulge in bad practice.

Let us look at the sort of stuff that has come out so far. There are endless examples: five beneficial owners control over 6,000 companies—a massive red flag. They are clearly not the real beneficial owners. Four thousand beneficial owners are under two years' old, including one who is not born yet. The company Atlas Integrate Services LLP was registered in September this year. The person of significant control in that company is just two months' old. In her two months of life, she has not just found time to start a business but apparently has got married, as she is listed as "Mrs" in the register.

We know from all the leaks how Companies House and our UK corporate structures are used and abused by bad people. I take just one example from the FinCEN files: 3,267 of the LLPs and the LPs were holders of bank accounts that involved suspicious transactions—British corporate structures. Of those 3,267 British corporations, 1,656—over half—were created by just four agencies. Nine agencies created more than 100 UK entities. One agency created 646 limited liability partnerships and limited partnerships. Those are examples of strong red flags that suggest malpractice.

It is not just the perpetrators who benefit but the victims who suffer, as the Minister knows. The only successful prosecution in this space is that of Kevin Brewer—the Minister will probably remember the case. This was a man in his 60s who deliberately set about showing the flaws in the system in Companies House. He set up a company called John Vincent Cable Services Ltd, when Vince Cable ran the Department that the Minister is now in. He did that in 2013. He then wrote to Vince Cable to tell him what he had done.

In 2016, he used the names of James Cleverly and Baroness Neville-Rolfe to set up another company. Again, he wrote to them. All he was doing with drawing attention to what was wrong with the system, but he was prosecuted. The Government proclaimed that prosecution as a great victory of how Companies House is vigilant over the quality of the data. Nothing could be more wrong. I think the Minister will agree that, in effect, he was a whistleblower. He was treated abominably by the authorities. That throws into stark relief the lack of action taken against others responsible for setting up bogus companies.

I urge the Minister to accept the amendment. It is common sense. It simply ensures that there is a strong duty on Companies House to use that wealth of data to investigate, proactively raise red flags and talk to the enforcement agencies. I hope that he sees the amendment as something that adds to the value of the Bill.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): It is a pleasure to serve with you in the Chair, Mr Robertson, and to speak after the right hon. Member for Barking. As she knows, and I hope all Committee members know, I am—like her—incredibly ambitious for the Bill. Hopefully, the dialogue we have in this room over the next few weeks will serve a great purpose to ensure that this legislation is fit for purpose.

I entirely agree with the thrust of the amendment. Of course we want a proactive gatekeeper of the information. The right hon. Member for Barking highlights many examples, as does the shadow Minister, the hon. Member for Feltham and Heston, who talked about the culture of the organisation. She is absolutely right that the culture needs to be focused on making sure that the information held by Companies House is accurate, but we need a balance. We must avoid an impossibly bureaucratic and expensive system. The right hon. Member for Barking highlights some of the problems of dealing with a register of this size. There are between 4 million and 5 million companies and about 7 million or 8 million directors in the UK. To independently verify all those records, one by one, is clearly a huge challenge.

On changing the culture of the organisation, the Bill has its four objectives: accuracy, completeness of records, reducing risk and reducing the chances of unlawful activity. I would also point to the text in bold type in clause 1—the objective

"to promote integrity of registers".

That does exactly what the right hon. Lady intends with her amendment. To me, promoting the integrity of the registers speaks to the proactivity that we want to see. We definitely want to see Companies House sharing information with law enforcement agencies proactively, for example.

The right hon. Lady spoke about a number of obvious cases that would raise red flags, and that happens because Companies House is not operating as she wants it to. One of the key bases of the Bill is to change the

[Kevin Hollinrake]

role of Companies House from registry to gatekeeper, and to promote integrity properly and proactively by identifying information on a risk-based approach.

Liam Byrne (Birmingham, Hodge Hill) (Lab): I join my colleagues in welcoming the Minister to his post, in what is a very welcome appointment, and I apologise to you, Mr Robertson, for being slightly late this morning.

Surely the Minister must see that there is a world of difference between action to promote the virtue of something and action to prevent the badness of something. I have been a Minister too. I have created Government agencies. I have tried to enshrine objectives in agencies, from which a business plan is then written. It is incredibly important to say what we mean and mean what we say when we are specifying the objectives of an agency such as Companies House. I urge him to think again about the amendment. It is not simply a matter of word play. It is about doing what is needed to be done.

Kevin Hollinrake: I am grateful for the right hon. Gentleman's work in this area. We should not get into semantics. The key point, as he says, is making sure that we have a plan that sits behind the objectives, and Companies House is currently working on how it will perform its duties under the objectives. That is key. We can legislate all we want in here, but legislation is less important than implementation. The implementation of the rules is key. We must ensure that the plan is robust and that it identifies the red flags on a risk-based approach and shares that information with the relevant law enforcement agencies that have their duties to undertake. "Promoting integrity" does what the right hon. Member for Barking wants.

Dame Margaret Hodge: I am grateful to the Minister—I know he is struggling. Why not put this objective in? If Companies House is going to do this work anyway, what is the objection? Why not let it stand there? It will ensure the work over time. Our lives are always short as Ministers. The Minister is not going to be there all the time. Other people are going to take over from him. We want Companies House to be proactive throughout the time that the legislation lasts. Why not put this objective in?

The only reason I can think of for why the Minister is getting objections from his civil servants—I assume the objections are coming from them—is that Companies House will not carry out this proactive role, because it will prioritise its other role of verifying information, and we will lose the advantage of the wealth of data with integrity that we could use to eliminate the wrongdoers.

Kevin Hollinrake: I take the right hon. Lady's point, but I do not agree. Clearly, we will seek to improve many things as the Bill goes through its various stages. However, if we look at the objectives themselves, objective 1 is to

"ensure that any person who is required to deliver a document to the registrar does so."

That is, to me, a proactive condition and objective. We probably have arguments about the drafting, but the nature of what we seek to achieve is the same. I would therefore politely ask that the amendment is withdrawn.

9.45 am

Seema Malhotra: On this occasion, having heard what the Minister has said, I think that this is an ongoing debate. We will want to have some further discussion and perhaps come back to the issue on Report. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Alison Thewliss (Glasgow Central) (SNP): I beg to move amendment 71, in clause 1, page 2, line 10, at end insert—

"(4) The Secretary of State must ensure that the registrar has sufficient resources to fulfil the objectives set by subsection (3)."

This amendment would require Companies House to be properly resourced in line with its new responsibilities.

Much like with the previous amendment, it seemed sensible to bring things to the attention of the Government right at the very start of the Bill, because matters can get diluted over time. If we put this issue front and centre of the Bill, and say that the Secretary of State must ensure that the registrar has sufficient resources to fulfil the objectives set by subsection (3), that puts an obligation on the Government, and on future Governments, to follow through on the recommendations regarding the very worthy legislation in the Bill.

We heard a lot of evidence about earlier legislation. I served in Committee on some of it, such as in the evidence sessions for the Joint Committee on the Draft Registration of Overseas Entities Bill, and in Committee for the Sanctions and Anti-Money Laundering Act 2018. Over the years, there has been much legislation, but, as Bill Browder said in his evidence, without any enforcement of that legislation, and without the resources to ensure it is followed through, the Government can write as much law as they like but it does not actually matter.

We want to see resources put front and centre of the Bill, right up there at the start, and to hold future Governments to the important principle of funding this work. If the registrar is not funded to carry out the work it is being given to do, it just will not do that work. That has been the evidence of Companies House over many years. If it is not funded as well as empowered to do the work, it seems very unlikely that it will complete the tasks that the Government and all of us in this room expect of it. I therefore think the amendment is important and urge the Minister to accept it.

Seema Malhotra: The amendment tabled by our SNP colleagues would amend clause 1 to require the Secretary of State to ensure that Companies House is adequately resourced to achieve its objectives. I raised the matter on Second Reading, and I am sure we will come back to it.

On Second Reading, the Minister himself talked about legislation with implementation, and I am sure that he will have some sympathy for the sentiments of the amendment. As Jonathan Hall said in his evidence:

"The one thing that I think would make all the difference would be to resource Companies House."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 34, Q70.]

We support the principle of the amendment, but we are looking to address the same issue in our new clause 26, which we will discuss later. It is right to put the issue on the radar today and have it on there as we proceed

through Committee. I look forward to coming back to further discussions on how we ensure that Companies House is adequately resourced.

Liam Byrne: This is an important debate, and I think that the Minister's reply will be, in a sense, a useful "Second Reading" debate on how he will deal with the problem of resourcing. I know that he, as a new Minister, will have spent the weekend reading all of the evidence that we gathered last week. It was very much like an autopsy on the state of economic crime in our country—grisly and appalling. He will have been not shocked, because he is familiar with the facts, but reminded starkly that he is a Minister at a watershed in the debate. It is clear that the time to act is now.

The world is divided, and there is a great kleptosphere from Kaliningrad to Kamchatka, so it is important that we set out our stall as a place not just of free trade, but of fair trade, as well as, crucially, clean trade. That is where economic advantages will flow from in the years to come. It is therefore a matter of enormous national shame that we have become such a hotbed of money laundering. It is appalling that about 40% of the corporate structures used for Danske Bank money laundering were here in the UK, and appalling that we have become such a country.

Hundreds of billions of pounds-worth of money stolen from the Russian people has been laundered through UK corporate structures, yet last week we heard from Bill Browder and Catherine Belton that UK corporate structures are absolutely being used by friends and allies of President Putin to move money abroad to help to finance Russian intelligence operations and other nefarious activity. However, as Mr Browder said, we are not prosecuting the crime and, as my right hon. Friend the Member for Barking pointed out, there has been only one prosecution despite hundreds of billions being stolen and moved through UK corporate structures.

In part, we are not prosecuting the crime because we are not policing the crime, and all of us on the Committee will have heard loud and clear last week's evidence from City of London police and the National Police Chiefs' Council, which said that they need more resource. It is as simple as that. They cannot afford the specialists they need to police this area, and the task of policing such crime would be an awful lot easier if we ensured that there was a proper gateway doing its job in Companies House.

We know that Companies House needs more resource as there has already been a wide-ranging debate. Indeed, the Minister, in his pre-ministerial life, is on the record as having speculated about what some of the resources might need to look like. We hope he will repeat those comments on the record as a Minister of the Crown in the Committee today.

Let us be clear about the risks, which were starkly described for us last week by the independent reviewer of terrorism legislation: there is a direct relationship between economic crime and national security. This is not simply a question of bad people stealing lots of money from good people; it is about a threat to our country. The Minister has an opportunity to ensure not only that our economy is operating on a clean-trade basis, but that our national security defences are strengthened. That is why the amendment is important, and why it is important that the Minister set out clearly today how he is going to approach the solution to this problem.

Kevin Hollinrake: I am grateful to the hon. Member for Glasgow Central, who I worked closely with on the Treasury Committee, for all her work on economic crime. I absolutely agree we need the right resources to go alongside the Bill, so I am fully committed to anything I said before in the Chamber or otherwise about ensuring that that resourcing is available. I certainly agree with the right hon. Member for Birmingham, Hodge Hill when he talks about clean trade—absolutely right. We do not want this country associated with dirty money in any shape or form.

The right hon. Gentleman gave an interesting example about the money laundering through Danske Bank, which was, as he said, hundreds of billions of pounds-worth of Russian money stolen from the Russian people flowing through UK shell companies to its destination. That was subject to regulatory action and potential criminal enforcement; it is not as though the matter was held secretly until it was identified locally in Danske Bank. Danske Bank will get sanctioned for that, so it is not as though law enforcement is not happening. However, the right hon. Gentleman and I would agree that, too often, big banks turn a blind eye to the problem on the basis that it is quite profitable for them, and the fines are ultimately a cost of doing business. What we need to do is hold people properly to account, including individual directors.

Dame Margaret Hodge: I agree, but the point with Danske Bank, as with so many of these massive scandals, is that it was a whistleblower who uncovered wrongdoing, not the enforcement agencies. We will come to whistleblowing later in our considerations, but what we want is for the enforcement agencies—in this case, Companies House—to be equipped to do the work themselves and not to rely on whistleblowers.

Kevin Hollinrake: I agree with the right hon. Lady's point. As she knows, I am a big fan of improving the legislation on whistleblowers. I am delighted to say that role is part of my portfolio and I am determined to take that forward as quickly as possible.

Liam Byrne: The Minister is being characteristically generous in giving way. The point about Danske Bank is that the money was moved through UK corporate structures that should not have been set up in the first place. If we had a stronger verification regime—if we had a stronger set of obligations on Companies House and a better-resourced Companies House—we would surely have run a chance of the crime being prevented, because the checks would have created a tripwire that would have stopped the structures being set up and the money being moved through them. The point about resources and duties is incredibly important.

Kevin Hollinrake: I absolutely agree. That is the nature of and the substance behind the Bill—making sure that the resources fit the need and that Companies House can promote the integrity of the register and work with law enforcement agencies to share that information and identify the red flags with a risk-based approach. We

[Kevin Hollinrake]

need to make sure that the work it is doing is appropriate to the task it has been given and that it is sufficiently funded.

Currently, the fees for Companies House are set at a level commensurate with its activities. The Bill seeks to massively increase the scope of its functions to that gatekeeper approach, so it has to be sufficiently funded. The funding started in this spending round, with £63 million for personnel and improving technology to be able to more easily identify the red flags. Companies House is bringing in external expertise to look at its work and what it will need to do to take the expanded activities into account. We need to make sure that as we go forward the resources will be sufficient for it to deliver on its new duties. It is right not to put the cart before the horse. We cannot say, "It should be £50" or "It should be £100". Various figures have been thrown about. I think the Treasury Committee suggested £100. We need first to identify what it will cost for Companies House to cope with the new duties and then set the figure attached to that cost, to make sure that it has the right resources but does not become a huge bureaucracy that is out of control in terms of costs.

Seema Malhotra: We are very quickly getting to the crux of the issues on resourcing for implementation. He referred to independent experts coming in to work with Companies House on its new capabilities and how it will need to be resourced. Will there be a recommendation from those experts on how much resource will be required? We have the objectives and we have debated whether they are sufficient to achieve the goals of the Bill, and we will come back to that point, but will there be a recommendation on how much resource is required and will that recommendation be a matter of public debate?

Kevin Hollinrake: Yes, in both cases. That work is going on now. Those recommendations will then be discussed with me and my colleagues in the Department and we will come back to the House. The decisions we make will be approved by the House under the affirmative procedure.

Liam Byrne: I suppose we may as well get all the details out now. The estimates for how much extra resource Companies House might need range from three times to 10 times its current level. I was very surprised to hear from Companies House that it was proposing to employ only 100 extra people. That is an increment of about £5 million to £6 million extra, which feels radically short of what is proposed and for the implications of the Bill. Will the Minister therefore put our minds at rest by saying to the Committee that those figures will be radically improved when the Companies House business case for the next financial year is approved?

10 am

Kevin Hollinrake: The shadow Minister also wants to intervene, so I shall take the interventions together.

Seema Malhotra: My intervention also relates to that of my right hon. Friend the Member for Birmingham, Hodge Hill. There is a risk of underestimating the amount of work, and of that then being locked in. I hope that during the course of the Committee, if we are to use our time to best effect, there will be further challenge to the scope of the work or to the expectations of how much work happens. We do not want the scoping for resources to be based on the Bill at the start; that is not necessarily what it will be at the end. Will the Minister clarify that the resourcing plan will be made in light of the ambition of the Bill, because we do not want it to fall short? The Minister's words—about legislation with implementation—will keep coming back to him, and I am sure he is the first to want not to fall short of them.

Kevin Hollinrake: Those words will live with me as long as I am in Parliament.

Seema Malhotra: They are good words.

Kevin Hollinrake: That is hugely important. The hon. Lady makes exactly the right case: for us to give a figure now, whether that is £50 or £100, is to put the cart before the horse. We all agree that the right resources will be needed, but they will be based on the duties in the final version of the Bill approved by both Houses. That is what we will seek to do with Companies House. My intention is absolutely that Companies House will do that.

In response to the point made by the right hon. Member for Birmingham, Hodge Hill, it is not just about people. I do not yet know the extra numbers that Companies House will dedicate to this work, or when. That is what we need to see in a clear plan that it will set out. Technology, however, can also play a huge part. Companies House holds a huge amount of data, public and non-public, that law enforcement agencies can make use of with a risk-based approach. Technology can certainly play a part, and that is not always inexpensive.

Liam Byrne: My sense is that the Minister will steer clear of specifying the order of magnitude by which we need to increase Companies House resources. That is a disappointment to many of us, but will he therefore advise the Committee how as a House of Commons we best guard against the risk of under-resourcing Companies House once the Bill has reached Royal Assent?

Kevin Hollinrake: Scrutiny—by Ministers and by Back Benchers, such as those in Committee and in all parts of the House. Parliamentary scrutiny is the most important thing—scrutiny of the plans of Companies House, to ensure that they are fit for purpose. I promise that no one is keener to see that than me.

May I address one other point in this conversation? Parkinson, for all his work, came up with two laws: first, that work expands to fill the time available; and, secondly, that expenditure rises to meet income, which we probably all recognise from our personal lives, but we could say the same of Government. We do not want to set a figure now, because if we did so, Companies House might expand to fill that envelope—

Liam Byrne: We do. That is exactly what we want to do.

Kevin Hollinrake: But I do not. I want to see the plan, to ensure that it is fit for purpose and that it delivers an excellent service at the lowest cost to the taxpayer. That is what we need to do. Doing it this way around is a better way.

Dame Margaret Hodge: Several things arise from the Minister's great contribution. First, I look forward to his support for our amendment to ensure proper parliamentary scrutiny of the work of Companies House, which will come later in our consideration of the Bill. Secondly, one knows how spending reviews go, and this will never become a top priority. I hope that the Government will see it is a security issue, but until they do so, it will not become a top priority for expenditure. That is why the Opposition—supported by the Minister, I hope, given his passion—want to put a figure into the legislation, to link it to inflation and to ringfence it, so that no Treasury official down the line can get hold of it. The final thing I wanted to ask—

The Chair: Briefly, please.

Dame Margaret Hodge: I will be brief. We think that Companies House has to do more in a whole range of areas if it is to be effective, such as on information on directors and proper control of company service providers. We do not want to create another cohort of people who allow bad things to take place. Those things will require greater resources. Will the Minister make a commitment today on that? If we are successful in passing the amendment, will he take those things into account when thinking about the financing?

The Chair: Before I call the Minister, may I say that interventions need to be brief?

Kevin Hollinrake: Thank you, Mr Robertson. I think it is wrong to put a figure in the Bill. Do I believe that Companies House should be properly resourced? Absolutely, but we need to ensure that that happens through this process and through Companies House's plan. I can reassure the hon. Lady on one thing: Companies House is supposed to get paid by the fees that it collects to cover its activities. It is not like the Treasury, which goes and nicks some of the money. It does not want that to become a tax; the organisation is funded by its fees. I think we would all agree to ensure that it is self-funded to the level that it needs to properly deliver on its duties. For all those reasons, I hope the hon. Member will withdraw her amendment.

Alison Thewliss: I would like to press the amendment to a vote because it does not set a figure or commit the Government to any particular sum of money, but guards against the under-resourcing that has plagued Companies House for many years. According to openDemocracy, economic crime costs the UK £290 billion a year, whereas Spotlight on Corruption tells us that the Government spend only £852 million on enforcement, or 0.042% of GDP. A lot more needs to be done. I am not committing the Government to any figure whatsoever, but the amendment would ensure that the register has the resources to fulfil its objectives. It is a simple and neat amendment.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 1]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Daly, James	Mann, Scott
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: The Government acknowledge the growing unease in many quarters about the limitations on the company registrar's ability to manage the quality of information that finds its way on to the register for which she is the custodian. The entirely new objectives introduced by the clause set the scene for the rest of the Companies House measures in the Bill. They signal the biggest step change in the whole ethos of Companies House and the registrar since that role was established in 1844, which I think the Committee will welcome.

The objectives make it clear to all that the registrar will no longer simply be the passive recipient of information; in performing her duties and functions as modified and expanded in the other Bill provisions that we will discuss in Committee; the registrar will be emboldened to be much more active in her guardianship role. No longer will Companies House be a passive receptacle for company information; nor will it simply accept in good faith what it is given. This Bill will give the registrar wide-ranging new powers to assist her to query more information and to reject filings that the registrar does not believe meet the standards of proper delivery or which do not tally with information that the registrar already holds. The registrar will be able to analyse and share information with other bodies, including law enforcement.

Those are just a few examples of how Companies House will operate differently in the future. The new powers will be exercised with the new objectives introduced by this clause firmly in mind. The objectives are geared towards ensuring that information that companies and others provide is complete, accurate and not misleading, and towards minimising the extent to which companies and others carry out or facilitate the carrying-out by others of unlawful activity. The Government are confident that, in aggregate, their introduction will make Companies House a far more effective gatekeeper.

Seema Malhotra: I am grateful to the Minister. Now that we are debating clause stand part, perhaps I can officially say "welcome" to him—I was saving it until now. It is indeed good to see him in his place and to be having the debates with him on the Front Bench.

We have debated aspects of clause 1, and have raised relevant questions. The issue is not whether we agree with the objectives, because of course we agree with all the objectives that have been outlined. The issue is whether they go far enough. Objective 1 is about delivering documents to the registrar. Objective 2 is about those documents containing all the information that they are required to contain. Objective 3 is designed to minimise the risk of information on the register creating a false or misleading impression to the public. Objective 4 is about minimising the extent to which companies and firms carry out or facilitate the carrying out by others of unlawful activities.

[Seema Malhotra]

I think we might ask ourselves the question again and again: why has it taken this long to get here when we have been having debates on the need to tighten up Companies House for so long and legislation has been promised for some time? When we read the provisions, I think we can say again: is this really the extent of our ambitions? Getting to second base is not the same as getting a home run, is it? I think that is the question and will remain the question. Although we agree with clause 1 and what is in it, we are going to keep asking the question about whether the basis on which so much else will be based in the Bill will be strong enough to give Companies House all it needs, along with the message about its duties to achieve its objectives.

This legislation is designed to tackle economic crime. As we have heard in the debate, it is also designed to protect UK national security. Those are two really serious matters that go together. We are talking about making it harder for kleptocrats, criminals and terrorists to engage in money laundering, with an impact on other crimes: crimes that go on in our streets, crimes related to drugs, crimes related to low-level theft and, now, even the security of our mobile phones and our data and conversations. So much more is at stake in terms of what goes on in people's everyday lives and their everyday security, much more than perhaps we envisaged when this legislation was first promised at least six years ago. The scale of the challenge has absolutely increased, and the question is as much about whether we will be forward-looking in the legislation as it is about tackling the scale of the problem, on the basis of which legislation began to be drafted perhaps one or two years ago.

10.15 am

In our view, we need to ensure that we can prevent problems, not just look at a cure, which is always much more expensive. We need to see investment in Companies House as an investment that will bring later savings in time and cost: cost not just in the form of Companies House resources but the cost to the nation—the hundreds of billions that are lost through economic crime. A key tool in our armoury must absolutely be the strengthened role of the registrar and the duties that go with it. The intention of the objectives is for the registrar to maintain the integrity of the registers that she maintains in relation to companies and other registrable entities. These are the very basics a nation should expect from a really important function of Government. The objectives are an important step forward, but in all honesty they do not go far enough in giving the registrar the focus that is needed to achieve the stated goals of the Bill.

The Government's White Paper on Companies House reform in February, which arguably was more ambitious than some of what has ended up in the Bill, stated that

"recent years have seen growing instances of misuse of companies".

Criminals are getting faster and cleverer. We must ensure that we have resources and safeguards in place. I know the Minister has only just taken up his role, but he has important decisions to make with this Bill. He knows that he has the will of Members on all sides of the House with him. I hope that he will ensure there are no back doors or Swiss cheese in this legislation and that it is as watertight and resourced as it needs to be to achieve its goals.

Liam Byrne: I think this has been a disappointing start to the Committee. Last week in the evidence sessions, I read out the objectives and asked the witnesses what they thought of them. We had anti-corruption organisations there—people who have given their lives to tackling corruption and economic crime—and they were very clear, saying the objectives were too weak and needed to be stronger. I will set out the politics of this for the Minister, new in his role as he is. He is on the wrong side of the argument. He risks going into the debates we are about to have as someone who it is too easy for His Majesty's Opposition to characterise as soft on economic crime. That is not his position. It is not a position he wants to be in. I hope he will reflect on the debate we have had today and come back with stronger and proactive anti-corruption objectives, including a duty to prevent corruption placed on Companies House.

To summarise the debate we have had, we are going to have a set of objectives for Companies House. Then we are going to match the resources to those objectives. The problem with setting the bar for our objectives too low, too soft and too weak is that we end up setting a resource base that is too low, too soft and too weak. On this side of the Committee—on both sides I think—we would rather see a much tougher set of policy objectives, and we would want Companies House to have the requisite resources to fill that role. I am afraid the Minister has found himself on the wrong side of the argument today. I hope that he reflects and comes back—possibly on Report or in the other place—with a strong set of objectives and the resources to match.

Kevin Hollinrake: I thank the right hon. Gentleman for his comments. I do not agree with what he has said. I read through much of the evidence given to the Committee before I was part of it, and Transparency International said that

"the Government has taken an important step toward cracking down on kleptocrats, criminals and terrorists—including associates of the Putin regime—who abuse UK companies for nefarious purposes."

It also says that the Bill

"presents a number of welcome reforms to the operation of Companies House that, if implemented effectively, would help to prevent money launderers from abusing the UK's company incorporation system".

There are people who agree with what we are doing here. We should of course reflect on the comments that have been made by hon. Members in the Committee, but I do think these objectives are important steps forward. We must ensure that they are effective, that there are no Swiss cheese loopholes, as the shadow Minister mentioned, and that the relevant bodies are properly resourced. That is a body of work I will continue with over the next few weeks.

Question put and agreed to.

Clause 1 accordingly ordered to stand part of the Bill.

Clause 2

Memorandum of association: names to be included

Seema Malhotra: I beg to move amendment 85, in clause 2, page 2, line 15, at end insert—

"(2A) After subsection 1, insert—

'(1A) The memorandum must also state—

(a) the nationality of the each subscriber; and

(b) the country in which each subscriber is ordinarily resident.'"

This amendment would require a memorandum on the formation of a company to include the nationality and country of ordinary residence of each subscriber (a subscriber being one of the company's initial shareholders at the time it was set up) along with their name.

The Chair: With this it will be convenient to discuss clause stand part and clauses 3 to 8 stand part.

Seema Malhotra: Clause 2 is important, and we have no concerns with it at all. It amends section 8 of the Companies Act 2006 to state that, for individuals, "name" means a forename and surname, and it goes into further detail. It is another example of an area where it is extremely surprising that our system has lasted for so long while being so feeble in the extent of the information it requires of company subscribers. Subscribers are initial shareholders in the company when it was set up: those who sign the important memorandum of association in forming the company.

Currently, information about subscribers is extremely limited, and there is no verification or definition of what constitutes a subscriber's name. That relates to the deeper issue, to which we will continue to refer in Committee, around the transparency of shareholders. Alongside our discussions of directors and officials, we must ensure that we keep shareholder transparency very much centre stage. Not having clear names affects the reliability of the subscriber information held by Companies House.

We welcome the clarity provided by clause 2, but we believe that the Bill could go further in requiring information from company subscribers. That is why we tabled amendment 85, which would insert a new provision that would require the memorandum on company subscribers to include the nationality of each company subscriber and the country in which the subscriber is ordinarily resident. Without that information, which should be verifiable, the formation of a company that registers with Companies House could be questioned by the registrar.

Transparency International has remarked that the UK has a terrible reputation as a hub for dirty money. That is something we do not even need to keep saying, because we are so used to hearing it. That is exacerbated and enabled by a lack of transparency about those who own and control UK-registered companies. If the Bill is to fulfil its ambition of clamping down on dirty money flowing through our economy, the Minister should support the amendment, which would provide that greater transparency and scrutiny of who owns companies registered with Companies House. I look forward to the Minister's response.

Alison Thewliss: I rise to support this useful amendment. It is fundamentally about enhancing the transparency of the register and what we know about the people on the register. It is also about tracing control: who owns what and where they happen to be. That is useful. Those are things that the Bill should look to fix. The Bill is about putting right things that are not quite right. The amendment adds to the richness of the information that is available to people. It seems perfectly logical that the Minister should support it.

Liam Byrne: Let me go back to 1855 for a moment, which is when this House last debated the creation of limited liability companies. It is worth every member of the Committee studying the *Hansards* of those debates, because the speeches reveal that, when our ancestors in this place made it possible for people to pool together small amounts of capital but nevertheless receive a limit on the liability that they would encounter if things went bad, their view was that it was in the common good of the country to allow in Britain the invention of limited liability, which had operated in the United States for some time. The common good of the country was the guiding principle by which the debate was shaped, and eventually the Bill was passed.

Right now, too many people are not contributing to the common good, and are using UK corporate structures to circumvent their obligations to pay tax and obey the law of the land. We should be trying to crusade against that, and this amendment would help us do that.

At the end of this year, the register of beneficial ownership for property will be published, but it is already clear that there are shell companies that own assets, including property in expensive parts of this country, whose nominal shareholders are resident abroad. There has been an enormous surge in non-resident, foreign national shareholders of shell companies that own property in this country. We have not only the phenomenon of shell companies but, as Oliver Bullough made clear, the new phenomenon of shell people.

The Minister has a decision to take. Will he put in place measures that help us guard against that risk and ensure that we honour the principles that were agreed back in 1855, or will he leave our enforcement regime as weak as it is today?

Kevin Hollinrake: Before I turn to the amendment tabled by the hon. Members for Feltham and Heston and for Aberavon, it might be helpful if I set out the intentions and effect of the clause.

The purpose of the companies register is to provide details of company ownership, and via these clauses the Government are introducing measures in this Bill to improve transparency requirements and increase the usefulness of the information held on the shareholders, subscribers and guarantors of UK companies. Clause 2 provides that each person who decides to form a company—a subscriber—must state their name on the memorandum of association. Currently, a subscriber does not need to state their full name—they can merely state their name as J. Bloggs, for example—as there is no definition of "name" for subscribers in the Companies Act 2006 or the associated regulations. This clause provides that, in relation to a subscriber, "name" means forename and surname. In that example, the person would have to state "Joe Bloggs".

The shadow Minister and the right hon. Member for Birmingham, Hodge Hill are absolutely right to try to get to the basis of ownership and control of companies. That is why we are focusing our attentions on the people who control companies—namely, the directors and persons of significant control. As the right hon. Gentleman states, if somebody really owns the company, that information would have to be disclosed and that person's identity would have to be fully verified.

I remind the Committee that persons of significant control are not just those who hold more than 25% of shares in a company. They can also be people who own

[Kevin Hollinrake]

more than 25% of the voting rights of a company, people who have the right to appoint or remove the majority of the board of directors, and people who might influence or control the company through other means—namely, a nominee. The company may also be controlled by a trust or firm without a legal personality. The provisions really focus on directors and persons of significant control, which are defined in a number of ways.

Amendment 85 would require that the memorandum of association also states the nationality of the subscriber and the country in which each subscriber is ordinarily resident. Subscribers are the persons who agree to form a company and become its members by subscribing their name to a memorandum of association. Upon incorporation of the company, they become its members and usually, but not always, its shareholders. Their details are recorded in the company's register of members.

The Bill already contains provisions that could not only achieve the intent behind the amendment, but require the same information from a wider category of person. Clause 45 inserts new section 113A into the Companies Act 2006. New section 113A provides a power for the Secretary of State to make regulations that amend the particulars required to be entered into a company's register of members. That power could be used to require the nationality and country of ordinary residence of all members to be entered into a company's register of members.

10.30 am

Dame Margaret Hodge: Is the Minister minded to use that power to enter the nationality of individuals on a company's register of members?

Kevin Hollinrake: I am certainly minded to consider all aspects of the debate we have had in Committee and to discuss the matter with the Secretary of State and others. We are here to inform the debate, and Members on both sides of the House are better informed as a result.

Liam Byrne: In the light of that remark, will the Minister go further and tell the Committee how he will tackle the problem of shell people if we are unable to get information about them? Shell people is the phenomenon of having what look like foreign nationals or residents of other countries controlling shell companies, which may, in turn, own assets in this country. If it is not possible for us to establish the nationality or the ordinary residence of those people, how will we know whether we have a problem? If, for example, people put down their nationality as British, we would know where to find them, but if we do not have that information, we risk getting a little lost.

Kevin Hollinrake: If the person is a director or owns more than 25% of the shares in a company, they have to have their identity verified. If the right hon. Gentleman means nominees, such a person could easily be living in the UK. I am not sure that the right hon. Gentleman would be better served by knowing where they were based, unless we were taking a risk-based approach to people from a certain nation.

Liam Byrne: Such as Russia.

Kevin Hollinrake: Such as Russia. It is key that the ID verification works for directors and persons of significant control—that is where we are on that. We need to debate whether the amendment, which seeks to find out the nationality of company members, who are not necessarily shareholders or directors, serves any purpose at all.

Liam Byrne: We might as well pursue this point while we have the time. The 25% threshold is obviously very high, and an amendment will be tabled seeking to lower it. If that does not go through, however, the risk is that there will be members on the register with a significant or even a controlling stake of below 25% in a company, yet we will not know where they are resident or where they live. We are now running that risk.

Kevin Hollinrake: The definition of "persons with significant control" accounts for exactly that—it accounts for the fact that a person with influence on a company might have any level of shareholding, even including zero shares. That is catered for in the definition of "persons with significant control." Of course, there is always discussion about how we find out about and verify such information, which is very difficult to ascertain in any circumstance. The subject of ID verification is interesting to debate. I have discussed different aspects of it with officials and we should definitely consider it further.

The regulations under new section 113A will be subject to the affirmative resolution procedure, so the overall intent behind the amendment would be better addressed in a wider conversation about what additional information, if any, it would be proportionate to require every company to provide about its members via these regulations. I hope I have provided some assurance that this amendment is not necessary. Therefore, I would be grateful if the hon. Member for Feltham and Heston would withdraw it.

Clauses 3 to 8 will require those seeking to form a company to confirm that they are doing so for lawful purposes. The clauses make it absolutely explicit that those forming companies are welcome to do so only if they intend to do so for a lawful purpose. Through the requirement and provision of the new statement, subscribers to a new company can be in no doubt that if they are found not to be telling the truth, action can be taken against them.

Clause 4 will require applications to register a company to include a statement that none of the company's subscribers, founding members or initial shareholders is a disqualified director. The definition of "disqualified person" is provided in proposed new section 159A(2) of the Companies Act 2006. Clause 4 enables the registrar of companies to reject the application if any subscriber is a disqualified director. The registrar should reject such applications, because by being involved in the formation of a company, a disqualified person breaches the law.

Under clause 5, an application to incorporate a company must include a statement confirming that all the company's proposed directors have either verified their identity or are exempt from verification requirements.

Dame Margaret Hodge: How will the exemption be defined? Will the regulations confirming the exemption be subject to the affirmative procedure? Also, I draw to the Minister's attention an example that he could look

at: Fedotov took advantage of exemptions to use Russian stolen wealth in the UK. These exemptions are very dangerous; I want to hear from the Minister how we will ensure that they are properly regulated and monitored by Parliament.

Kevin Hollinrake: The right hon. Lady makes a fair point. I am sure that she will accept that the Secretary of State is as keen as she is to clamp down on this activity. Exemptions can be made when directors undergo sufficient scrutiny on employment. Also, the director's ID can be confirmed without verification when the prohibition to act as a director while unverified does not apply. An example would be directors appointed by the community interest companies regulator under section 45 of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

Dame Margaret Hodge: I am worried about this. Will the Minister look at how Fedotov managed to get an exemption, and then perhaps write to Committee members about it? Then we could see whether there is a systemic issue, and whether we ought to have a better overview of the way in which exemptions are determined.

Kevin Hollinrake: I can see the officials writing like mad. I am sure that they will have picked up on that. I am happy to look at this as well. I reassure the Committee that the affirmative procedure is required, so that we can ensure sufficient scrutiny of exemptions from the obligation on directors to verify their identity, and so that Members can see why those exemptions are proposed.

We will come to other identity verification clauses later in Committee, but I am confident that Members will agree that clause 5 is vital. It improves the accuracy and integrity of the companies register by allowing the registrar to refuse incorporation of a company if the directors are neither ID-verified nor exempt from the requirement to be ID-verified.

Clause 6 requires a company's subscribers to provide a statement when an application to register a company is filed confirming that none of its proposed directors is disqualified or ineligible to be a director. Disqualified or ineligible people include undischarged bankrupts and individuals subject to asset freezes. The clause allows a registrar to reject an application to register a company if a proposed director is disqualified or ineligible for appointment. The registrar's rejection prevents the company from being formed. If the statement confirms that a proposed director who is disqualified has received a court's permission to act, the registrar will accept the registration. The clause helps to ensure that disqualified and ineligible directors do not make it on to the companies register.

Clause 7 requires that applications to register a company include a statement that none of the people with initial significant control is a disqualified director. People with initial significant control are individuals or legal entities that will own or control the company once it is registered. The clause will ensure that the registrar has the necessary information and power to reject an application if the person with initial significant control is a disqualified director.

Alison Thewliss: This is about new registrations. Will the registrar go back through the Companies House records to find people who may still be on the register but ought not to be, because they have been disqualified?

Kevin Hollinrake: All directors and people with significant control need to be ID-verified for existing companies, and the same obligation will be placed on new corporations.

Finally, clause 8 will permit an application for the registration of a company to contain a statement that the identities of its persons with significant control have been verified. The clause will allow persons with initial significant control to comply with the ID verification requirements at the point of registering a company. Where a company's subscribers cannot make a statement confirming that persons with significant control have complied with ID verification requirements, the company will nevertheless be registered. The registrar will then direct the persons with significant control to comply with the identity verification requirements.

Seema Malhotra: It is a pleasure to speak to clause 2 and to clauses 3 to 8. I have been listening carefully to the Minister and have a few questions. I have made extensive remarks in support for clause 2, so I do not intend to go much further on that. Suffice to say that we have had an important debate, and I think the Minister will find that we will continue to come back to some of these matters.

On the point about the nationality of the subscriber and the country in which they are ordinarily resident, I did not hear the Minister give a clear answer as to whether the Government might consider tabling future amendments if they do not want to support ours. I have good faith in the Minister and want him, on day one of taking up his responsibilities, to take on board hon. Members' points, so I would be grateful if he could come back to us on how he plans to consider that matter. My hon. Friend the Member for Aberavon may want to apply a similar principle to other clauses, so it would be most helpful if the Minister could take away the point about the subscriber's nationality and the country in which they are ordinarily resident.

We support clause 3, which will ensure that when a company registers, it cannot be formed for unlawful purposes. It is extraordinary that we have not made that clear before or sought such a declaration previously, but it is a necessary provision in the light of the scale of abuse of Companies House by those whom we are now seeking to prevent from doing so in the future. We need to clear out companies that are not performing the functions that we would expect of a company registered in the UK. As the Minister goes through the resources question as to how quickly we will be looking to Companies House to go through and verify existing company records, this will fall into that important cleaning-up exercise. It is a necessary provision and is intended to ensure that if such a declaration turns out to be inaccurate, the registrar can reject the company's filing on the basis that a false filing offence will have been committed. That is an important step forward.

Clause 4 will ensure that when a company registers, it must declare that none of its subscribers—its initial shareholders—is a disqualified director. We welcome the clause, because it is important to think about people's roles and how games could be played with Companies House, and therefore with Britain and the British public, without cross-checks and balances in place. The clause is necessary to ensure that the registrar is able to actively reject and remove company subscribers who have been

[Seema Malhotra]

disqualified as directors. It cannot be right that somebody who has been found unwilling or unable to meet their legal responsibilities as a director could still be involved in, and have control of, the formation of a new company. It was a loophole in the Companies Act 2006 that a disqualified director was not prevented from owning a newly established company. It was a loophole ripe for exploitation, but we welcome clause 4.

10.45 am

I will say a few more words about clause 5. My right hon. Friend the Member for Barking made an intervention about it, and I hope that the Minister made a note to write back to her on the matter that she raised. Clause 5 will ensure that company directors, on application to the registrar, have verified their identity. We cannot disagree that that is vital; it is important to have it in the legislation to ensure the accuracy of the information on the register.

We welcome the measure, but it does not appear to be the strongest of safeguards, although any missing or false declaration rightly allows the registrar to reject the application to form a company. There are still many unanswered questions in this legislation, not least about the roll-out of the verification procedures and whether they will be of as high a standard as possible. The Minister referred to other secondary legislation that may be coming, but it is frankly extraordinary that we are debating this Bill in Committee without having further detail on verification processes and procedures. Will the Minister clarify how he would expect the registrar to be able to confirm the veracity of directors' identities? For example, would there be an expectation to check against any other databases?

We also want greater clarity about the power of the Secretary of State, as has been highlighted, to set out exemptions to the director verification requirements on company formation. That has the potential to be a serious and worrying point of entry through the back door. The issue is really important: in the course of the Bill, we have seen a number of Henry VIII powers and Secretary of State's powers to allow for these exemptions without accountability, necessarily, and without transparency.

I would be grateful if the Minister clarified, at this stage, when it is intended that such powers to exempt may be used; he may have scenarios and situations. We have talked about the importance of the Bill for tackling not just economic crime—in relation to money laundering and oligarchs buying yachts and homes and buying up our town centres—but national security.

As a Committee, we need to understand how we should expect these exemptions to be used, under what circumstances and with what safeguards. If we cannot have those scenarios to give us the confidence that it is important for the Secretary of State to have those exemptions, or clarity about some way the use of that power will be published—or maybe scrutiny through other mechanisms in the House, which could be on Privy Council terms—how can we expect the powers of the Secretary of State to be subject to accountability and scrutiny? If we cannot get that clarity, we have to ask why the provision is necessary. I look forward to the Minister's response.

I have a few brief comments on clauses 6, 7 and 8. We support the new provision brought in by clause 6. We recognise that it is an important step for subscribers to introduce a statement to the memorandum of association that none of the proposed directors is disqualified or ineligible to be a director. That will force that question to be asked of directors as well, because they are legally responsible for running a company, with statutory responsibilities and duties that they must adhere to. Ensuring that that is delivered is part of the important step of prevention, which the Bill should be looking to fulfil.

My question to the Minister is: have the Government considered the case of a director with previous multiple disqualifications, perhaps all of which have been spent? Is there any interest in there being a box to tick to state that someone has been disqualified more than three times, say? Has that been considered? Have any conclusions been drawn about that?

Clause 7 introduces the same provisions as clause 6, but in relation to persons with initial significant control. Again, it is an important step, but similar questions might apply. Finally, clause 8 amends the Companies Act 2006 to allow company subscribers to make statements confirming that the future company's people with significant control have verified their identities. We all agree on the importance of verifying identities for company directors, shareholders and people with significant control; that has been proposed by predecessors in the Department for at least the last three years, if not six.

The Labour party welcomes the introduction of the measure, but why has it taken so long? It is important to learn lessons and to be clear on the consequences of that wasted time. Perhaps in due course, as Companies House does its verification of existing companies, the Minister will report the number of bogus company incorporations made for fraudulent and criminal purposes—particularly in the last three years since identity verification was first suggested, but even prior to that, because maybe the mere suggestion caused a change in behaviour. As we look at cleaning up the Companies House database, it is important that we get some feedback on what the scale of abuse may have been and what we can learn to make sure that we are as tight as possible for the future. That may even test whether the legislation requires amendments in due course.

Liam Byrne: I want to reinforce the last point made by my hon. Friend the Member for Feltham and Heston. If we are going to equip the Minister with new powers, it is important that he tells the Committee, at this stage, how he intends to use them. The key question is: what is his deadline for ensuring that every single company on the register has fulfilled the obligations created by these clauses? Can he clarify what his risk tolerance for bad behaviour will be?

I ask the Minister that because I was forced to table parliamentary questions in October last year, which revealed—extraordinarily—that 11,000 companies on the Companies House register had still not disclosed their persons of significant control, even though it was a legal requirement at the time. That is a very big number, but despite that fact, only 119 convictions had been secured for wayward directors.

If we are going to give Companies House the new obligations and new duties that the Minister is taking through, but they are not going to be enforced, then

frankly there is very little point in the Bill. If the Minister is not able to today, I hope that he will write to us later to confirm two things. First, will he confirm that his intention is for 100% of companies to meet their obligations under the Bill? Secondly, I think the whole Committee would welcome his setting out a timescale for seeing that target secured.

Kevin Hollinrake: A number of points have been raised. The shadow Minister talks about the veracity of information and how we can become certain of it. As she knows, we are talking about a huge number of records—double-digit millions when adding up companies and directors. If we added shareholders, that would be many millions more.

The focus of this debate should be on who is controlling a company, be it a zero shareholding, small shareholding or larger shareholding. That is why traditional ID verification focuses on directors, who are obviously the officers of a company and control it, or a person of significant control—someone who sits behind that organisation. That is why we ask for those IDs to be verified. That can be done by Companies House or a corporate service provider. Some of those have a dubious reputation—I am sure that will be discussed in Committee—but let us see this for what it is: many of them are bona fide, reputable organisations such as Deloitte, EY and PwC. If someone has proven their identity to those organisations *[Interruption.]*—I am someone who can see his wrongdoing, but I do not see wrongdoing on every single corner. Most people working in commercial enterprise are decent, honourable people who seem to do the right thing. We should keep that in the context of this debate.

The duty is on a director of an organisation to make a statement to say that their identity has been verified. If that statement is false, criminal sanctions are attached. That is how this is regulated. It would make no sense for Companies House to revisit tens of millions of records to ensure that people at Ernst & Young and Deloitte have properly verified the identity of an individual. They are subject to those criminal sanctions.

On multiple disqualifications, I think the hon. Member for Feltham and Heston was talking about some kind of "three strikes and you're out" system for a director. The Insolvency Service has the opportunity to ban a director for up to 15 years. It is fair to say that if someone had constantly not paid their tax or filed their accounts and had been banned, their days as a director would be just about done by the time they had got three penalties of 15 years.

The exemptions, as I said before, will be brought forward by affirmative regulations. The provision is intended for when there is no need or purpose to going through another round of ID checks, to avoid needless bureaucracy. We should all welcome that because, as anyone who has been at any organisation knows, bureaucracy equals cost for somebody—whether that be a cost on commercial enterprises or on the taxpayer. We have to be careful not to step too far unnecessarily.

Liam Byrne: That is an important point. The Minister is basically telling the Committee that he wants to ensure that the verification checks are proportionate, but across Government—in the Passport Office, the visa service and benefits agencies—there is a well-established infrastructure for verifying identities. If people are applying to become a director or a person of significant control, it is hard for many of us on the Committee to understand why the checks on their identity should be much lighter than those applying for other benefits from the state.

Kevin Hollinrake: I do not understand why the right hon. Gentleman says that the checks are lighter. This is ID verification where the individual has to be identified against a form of ID such as a passport. It is a proper ID verification. That process will be brought forward so that the Committee can decide whether it is fit for purpose. It is absolutely right that we do that, but these are proper ID verification requirements.

The deadline for ID checking of existing directors is 28 days from the commencement of this legislation—*[Interruption.]* The right hon. Member for Birmingham, Hodge Hill is not even listening, even though I am answering his question. Existing directors will need to be verified within 28 days. The deadline that he asked for is 28 days from the commencement of the legislation.

Liam Byrne: And the target?

Kevin Hollinrake: It is 28 days.

11 am

Seema Malhotra: I thank the Minister for his comments. I think he has committed to write to me about nationality and country; he did make a note. Did he make a note? Did I get that right? It is a matter that my colleague will also be raising, but I think he said that he would write to me with the Government's view on that matter. On the basis of that, I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 2 ordered to stand part of the Bill.

Clauses 3 to 8 ordered to stand part of the Bill.

Clause 9

NAMES FOR CRIMINAL PURPOSES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 10 to 13 stand part.

Kevin Hollinrake: I do not think I did commit to write to the hon. Member for Feltham and Heston, but I am happy to do so if she would like. I am definitely committed to considering all the contributions to the debate.

The Companies Act 2006 contains a range of provisions, whose focus it is to mitigate potentially undesirable impacts arising from a company's choice of name. For example, it is already unlawful to incorporate a company the name of which, in the opinion of the Secretary of State, constitutes an offence or is offensive. Clauses 9, 10, 11, 12 and 13 will place further controls and restrictions around the choosing of company names by making amendments to the Companies Act 2006.

Clause 9 will give the Secretary of State the ability to prevent the registration of a company name that, in his view, is intended to facilitate the commission of an offence involving dishonesty or deception, such as fraud. It is sadly all too common for Companies House to

[Kevin Hollinrake]

observe the opportunistic establishment of new companies, whose names, for example, appear to exploit natural disasters or humanitarian crises. At present, Companies House has no means of preventing the registration of company names capable of facilitating deception of this nature. This provision will provide that power.

Clause 10 builds on existing safeguards in the Companies Act 2006, which restrict the extent to which companies can adopt names that give the false impression of a connection with a UK public authority. At present, if a name was to suggest association with UK national or local government, the devolved Administrations or specified local authorities, the Act and associated regulations provide a framework within which consent needs to be sought. The clause supplements that framework by providing safeguards in the international sphere. However, rather than applying a system of consenting, the starting assumption will be to prohibit names that, in the opinion of the Secretary of State, give a misleading impression that the associated company is linked to a foreign Government or its agencies.

Such a prohibition will also apply to names that reference recognised international organisations—for example, NATO or the United Nations. Of course, there may be occasions where overseas Governments and international bodies quite legitimately wish to incorporate companies in the UK. The clause would not prevent those companies from having names that connect them with a Government or body where that connection is a true reflection of reality.

Clause 11 will give the Secretary of State the responsibility to reject the registration of names that comprise or contain what, in his opinion, constitutes computer code. Company names are a potential vehicle through which bad actors can infiltrate the systems of those who access or download them. Computer code embedded or incorporated within a company name has the potential to subvert and to exploit the networks of unwitting third parties. That is clearly something we would wish to guard against.

Clause 12 inserts a provision that effectively prevents a company from re-registering a name that has already been the subject of a direction. That change will prevent an administratively burdensome cycle of repeat name-change directions, which is clearly better avoided.

Clause 13 prevents directors and shareholders from carrying a name to another company when they have already been denied its usage, as a consequence of either a direction from the Secretary of State or an order made by a company names adjudicator. It does, however, recognise that there might be instances in which secondary use would be quite legitimate. Scope is therefore provided for the Secretary of State to approve a name, notwithstanding the general prohibition introduced by the clause.

Seema Malhotra: We support clause 9. We recognise that it amends the Companies Act to give the Secretary of State the ability to prevent registration of a company if they think the name of that company is intended to facilitate dishonesty or deception. Companies House deals with up to 100 cases of corporate identity theft every month, and given that this form of fraud and others are starting to become more prevalent, it is right that there be these new powers to prevent registration, stemming—we hope—the flow of new fraudulent registrations. An incredible amount of distress arises from the impact of that dishonesty and deception.

Clause 10 inserts into the Companies Act a new section prohibiting company names falsely connected to foreign Governments and international organisations, and the Minister has spoken about why that section is important. It gives the Secretary of State the ability to prevent the registration of a company with a proposed name that, in the Secretary of State's opinion, suggests a connection with a foreign Government, its offshoots or international bodies where none actually exists. As has been mentioned, that could be the UN or NATO, or any other body. Of course, we support the principle behind that measure, but in the interests of transparency about the use of that power, could the Minister clarify whether, when the Secretary of State is asked to make a judgment in such a situation, he expects that the judgment will be publicly shared—that, for example, Companies House might report on the uses of that power as part of its reporting?

I also want to clarify how the power will be used. When a company is formed that the Companies House registrar suspects is not actually connected with a foreign Government or other international body, but looks like it might be, will the registrar have a duty to flag such instances with the Secretary of State? That is important, because it comes back to the question of the proactiveness of the registrar's duties, so it would be helpful to clarify it. What about the scenario where an attempt is made to register a company with a proposed name that, were it to be raised, would go through that process and very correctly be stopped by the Secretary of State, but it is not picked up by Companies House? If that situation arose for any reason—it could be new staff, or it could be the pressure of time because of insufficient resources; mistakes can be made in those circumstances—could a third party then apply for the name of that company to be changed? How would that work if it were an international organisation?

If uses of the power were reported by Companies House, would we be able to search and see that a number of people had sought to set up a company called United Nations Associates, or something like that? Would we be able to have a sense of how Companies House is perhaps being used in that way?

Should a company that has had its name changed by direction of the Secretary of State continue to seek to trade under that company name—perhaps in an overseas jurisdiction, if the name is falsely connected with foreign Governments—it would be helpful to clarify what measures could be taken, and by whom, to seek to put an end to that. There may be an obvious answer.

Alison Thewliss: I want to highlight again to the Minister the issues in these clauses that Graham Barrow raised in the excellent evidence that he gave to the Committee last week. He said:

> "The Bill does include the ability for Companies House to reject similar names, but if you have 3,000 companies a day—and that extends to companies across the world that may have similarities—I do not see how you are going to enforce that reasonably. There is just too much volume and too many potential comparative data points to compare them to."

His suggestion was that the system needs to have

"a little bit of friction".—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 109, Q204.]

Instead of Companies House turning around an application in less than 24 hours, a little bit of time should be taken to assess and analyse it.

The human element of this process is also important. Some of it may be possible to achieve with clever computer algorithms to sift out any companies whose names are too similar to existing ones, but there needs to be human judgment as well. This goes to the point of Companies House resourcing and staff being able to understand what they see in front of them. That will take expertise and long-term knowledge, not only of the company in front of them but of the existing companies on the register—and they are there in their millions.

I will address a point that has not really been raised before about clause 11 and names containing computer code. When these kinds of things come up, I reach for the expertise that I have pretty much at hand. I went to my husband and asked him about this, because it is his profession—he is a computer coder by trade—so I thank Mr Joe Wright for his assistance. I said, "Is this really a problem, and what does it actually mean?" My understanding is that the clause is to guard against SQL injection into the Companies House register, because anyone pulling that out of the register can have their systems corrupted by companies that register with computer code.

My husband directed me to a very useful article, which people should have a wee look at, by Neil Brown on decoded.legal that looks into this in some detail. A company has been registered using computer code. It was registered under the name ; DROP TABLE ″COMPANIES″;-- LTD, which has some computer code around it. Dr Michael Tandy registered that company name, but Companies House did not publish the name on its register; it said that the name was available on request. Can the Minister clarify whether the clause will deal with that specific case, or whether it is broader than that?

The article by Neil Brown raises some questions. What exactly would be prohibited? The Bill does not define computer code; it prohibits the use of names that "in the opinion of the Secretary of State" are computer code. I do not know whether the Minister knows his SQL from his JavaScript, but that seems like a big judgment and responsibility to put on Government Ministers. In its very essence, computer code is just an instruction to a computer, and that instruction can be in plain English text as well. Can the Minister tell us exactly how this will be assessed and what systems will be put in place at Companies House to define what computer code is, in practice? That, again, comes down to the human element—someone understanding exactly what is in front of them.

I urge the Minister to give a wee bit more clarity about what is code, what is not code and what exactly the clause is intended to catch. There are such companies on the Companies House register, and because code can be in text that we would understand—rather than a series of numbers, letters and symbols—it might be more difficult to enforce this. I would be grateful if the Minister could help us understand a wee bit better how the Secretary of State's complete discretion to define what is and what is not computer code will be used in practice.

Dame Margaret Hodge: This question is really just for information. Can the Minister explain why the three categories were chosen for inclusion in the Bill? Why are we only looking at these? What was rejected, and why did these three come about? I cannot understand it. Is there a right to appeal if somebody chooses a name for a legitimate reason but it is misunderstood by Companies House? Who will take the decision? Is that something the Secretary of State will delegate to Companies House, or will it have to come up for ministerial approval every time?

A slight aside: some of us had dinner last night with Catherine Belton, and she talks convincingly about the way that companies linked to the Kremlin have individuals who do not reveal that link. The link to foreign Governments is more worrying than the idea of someone abusing the name of foreign Governments to set up, say, a travel agency to go to Russia. That sort of thing seems to me perfectly all right. The other side of this coin is what causes great concern. It can become a vehicle for money laundering and hiding a lot of the Kremlin's money in banks abroad.

11.15 am

Seema Malhotra: I echo the concerns raised by my right hon. Friend the Member for Barking. She has drawn out some important distinctions. One is where there has been duplicity in setting up a company with a particular name, and there may be good reason for wanting to challenge that. She has highlighted the safeguards, but she is right that we need clarity in relation to kleptocrats and real connections to foreign Governments, which the Bill is trying to stop.

I thank Joe Wright. The hon. Member for Glasgow Central is right, because technology and people who use it are getting more and more sophisticated. Embedded computer code can maliciously infect the systems of those who access or download data. I saw the very real impact of data getting on to servers when I recently visited a company in Liverpool for a roundtable. Their systems had gone down, but luckily they had safeguards to stop what had happened. How quickly viruses, spyware and other means of destruction can travel, and they pose such security risks for companies and countries. That is an important part of our security, so it would be helpful to have some further information on that.

We welcome clauses 12 and 13 as important provisions. Clause 12 ensures that companies cannot use names that are misleading or used to mask criminal purposes. Clause 13 provides a mechanism to ensure that where there is good reason for a direction to change company names, it is not bypassed by those who use the registrar for fraudulent purposes. What enforcement mechanisms would come into force in such situations?

Kevin Hollinrake: On a point of correction, I said in answer to a question from the right hon. Member for Birmingham, Hodge Hill that existing directors and people with significant control had 28 days to verify their identity. That figure has not been set yet. It will be set in a commencement order, which I will find out more about. The 28 days applies to relevant legal entities.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: I have only six minutes left, so if the right hon. Member wants to hear from me on all those points, he will have to keep it very short.

Liam Byrne: Could the Minister also clarify his target for compliance? I hope it is 100%, but if he could clarify that as well, I would be grateful.

Kevin Hollinrake: I am grateful. Of course, my target will certainly be 100%; I cannot imagine why it would not be. The 28 days refers to the time that relevant legal entities will have to rectify their identity from receipt of the registrar's direction.

To answer the hon. Member for Glasgow Central on computer code, there have been a small number of instances where Companies House systems have identified computer code. What constitutes that may change and evolve over time, so the drafting is future proof. Companies House already has a security capability that will develop and evolve over time. Where necessary, Companies House's internal scrutiny functions will consult other experts.

The right hon. Member for Barking asked what had been rejected. No other categories were rejected in the course of policy development. I think that these categories were deemed important, but I do not know of any others that were considered. The right to appeal regarding the name change would be through a judicial review. Clearly, it is fair to say that Companies House will use its judgment.

To answer the right hon. Lady's point on the Secretary of State's functions, Companies House exercises those functions. There is a well-established administrative process by which Companies House makes the Department aware of potentially problematic names, so the Secretary of State can also exercise their judgment. On how we identify any of those names, of course, a lot of that is technology-based.

Dame Margaret Hodge: I am really sorry, but I just want clarification. Does that mean the decision is taken by both Companies House and the Secretary of State—or a Minister on their behalf?

Kevin Hollinrake: As I understand it, Companies House makes the decision under delegated authority.

On trading styles or business names, which the shadow Minister mentioned, that is clearly not something that Companies House oversees directly, because it does not have a register of trading styles or business names. However, it does rely on third-party information to understand what a company may be trying to do regarding its trading style.

On the other problem—the other side of the coin, as the right hon. Member for Barking says—of money laundering and people supporting the Russian state, those matters are, of course, principally dealt with through money-laundering regulations or, indeed, sanctions regimes. People supporting the Russian regime, for example, should very often be subject to sanctions.

Question put and agreed to.

Clause 9 accordingly ordered to stand part of the Bill.

Clauses 10 to 13 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned.—*(Scott Mann)*

11.23 am

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Sixth Sitting

Tuesday 1 November 2022

(Afternoon)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Saturday 5 November 2022

The Committee consisted of the following Members:

Chairs: Mr Laurence Robertson, † Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Hollinrake, Kevin *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Mann, Scott *(Lord Commissioner of His Majesty's Treasury)*
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† **attended the Committee**

Public Bill Committee

Tuesday 1 November 2022

(Afternoon)

[Hannah Bardell *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 14

Directions to change name: period for compliance

2 pm

Stephen Kinnock (Aberavon) (Lab): I beg to move amendment 87, in clause 14, page 8, line 11, leave out "at least" and insert "no more than".

This amendment, and Amendments 88 to 93 would require that, when a company is ordered to change its name under the provisions of this Bill (including in cases where the name is considered misleading or it may facilitate criminal activity) the company must comply with the order within 28 days. This requirement would replace the Bill's provision to provide the company with a potentially unlimited period of time to comply with the order.

The Chair: With this it will be convenient to discuss the following:

Amendment 72, in clause 14, page 8, line 16, at end insert—

"(2C) The Secretary of State must publish the use of any such direction as set out in subsection (2B) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (2B) on the Companies House website.

Amendment 88, in clause 14, page 8, line 19, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 89, in clause 14, page 8, line 23, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 90, in clause 14, page 8, line 29, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 73, in clause 14, page 8, line 34, at end insert—

"(3B) The Secretary of State must publish the use of any such direction as set out in subsection (5)(a)(3) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (5) on the Companies House website.

Clauses 14 to 16 stand part.

Amendment 91, in clause 17, page 10, line 5, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 74, in clause 17, page 10, line 10, at end insert—

"(The Secretary of State must publish the use of any such direction as set out in subsection (4) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance set out in subsection (3) on the Companies House website.

Clause 17 stand part.

Amendment 92, in clause 18, page 11, line 13, leave out "at least" and insert "no more than".

This amendment is linked to Amendment 87.

Amendment 75, in clause 18, page 11, line 18, at end insert—

"(4A) The Secretary of State must publish the use of any such direction as set out in subsection (4) on the registrar's website."

This amendment would add a requirement for the Secretary of State to publish any extension of the period of compliance on the Companies House website.

Clauses 18 to 26 stand part.

Amendment 76, in clause 27, page 16, line 19, after "person" insert—

"and published on the registrar's website".

This amendment would add a requirement for the Secretary of State to publish any written notice of exception based on the national security etc. on the Companies House website.

Clause 27 stand part.

Stephen Kinnock: It is a pleasure to serve under your chairship, Ms Bardell.

I add to the comments of my right hon. and hon. Friends in welcoming the Under-Secretary of State for Business, Energy and Industrial Strategy, the hon. Member for Thirsk and Malton, to his place. Over the past few weeks and months, it has been a bit difficult to keep track of who is going where and of the blizzard of appointments. His appointment in particular stood out as a very wise decision by the Prime Minister. We very much look forward to working with the Minister on the Bill and on other issues.

I must add that I am looking forward to working with my colleague the shadow Minister, my hon. Friend the Member for Feltham and Heston. We will work together on the Bill, but I represent the shadow Home Affairs team, looking at the issues through the lens of security, which is so important to our country and is very much the other side of the coin from the economic resilience issue that we are also exploring.

I will speak to clauses 14 to 28 and the amendments to them. Economic crime has a devastating impact on an individual level for our constituents and businesses, and at a national level for our national security and economic resilience.

The Chair: Order. May I say that clause 28 stand part will be a separate debate? I remind the hon. Gentleman that in this group, we are debating up to clause 27 stand part.

Stephen Kinnock: Up to and including clause 27, finishing, and then moving on to clause 28. Thank you for that clarification, Ms Bardell.

The National Crime Agency estimates that £100 billion of dirty money flows through the UK every year and that fraud is causing £190 billion of damage to our economy. According to PwC, 64% of businesses have experienced fraud, corruption, or other economic or financial crime within the past two years, which is up from 50% only four years ago.

The Labour party believes in stronger action to defend our national interest, our economy and our national security from the organised criminals, fraudsters, corrupt oligarchs and kleptocrats. Indeed, as the shadow Home Secretary, the right hon. Member for Normanton, Pontefract and Castleford (Yvette Cooper), said on Second Reading:

"Ours is a country that has long prided itself on the rule of law and on strong economic institutions, which is what traditionally made it a good place in which to invest, but that is being undermined by economic crime".—[*Official Report*, 13 October 2022; Vol. 720, c. 291.]

It is also being undermined by the illicit money flowing through what many call "Londongrad". As much as that brings shame, it should also bring pride that we are coming together as parliamentarians to debate and scrutinise this important Bill.

We support the Bill, but the devil is in the detail. With 250 pages, a huge amount of detail needs extensive discussion. Part 1 is critical, because it aims to get to the crux of one of the major barriers to tackling economic crime. That problem is the underfunding, lack of regulation and lack of teeth at the heart of Companies House.

Clauses 9 to 22 cover legislation on changes to company names. I have moved amendment 87 and tabled amendments 72, 88 to 90, and 73 to clause 14, as well as amendment 91 to clause 17 and amendment 92 to clause 18. We are surprised that the Bill states that when a company is directed to change its name under the Companies Act 2006, including in cases where the name is considered misleading or might facilitate criminal activity, that company must comply with the direction in "at least 28 days". That requirement would replace the provision to provide the company with a potentially unlimited period of time to comply with the order. In a moment, I will pause to allow the Minister to clarify whether that provision is deliberate, because it appears to be both rather confusing and rather too generous. Surely, it should say that the company must comply with the order within 28 days. That is what the amendment seeks to achieve—as opposed to "at least" 28 days, it must be within 28 days.

The Bill includes lengthy provisions on company names, and sets out how and for what reason a company may be required to change its registered name. The aim of those provisions is to enable companies' names to be prohibited in cases where they may be intended to facilitate dishonesty, deception or another criminal offence. Although that aim is laudable, there appears to be a disconnect between the seriousness of the offences that the Government are seeking to prevent, and the lengthy periods of time that Ministers are prepared to allow for a company to comply with an order to change its name.

Given that such an order will generally be made only when a Minister has identified a clear risk of harm in relation to a company's name—including a risk of fraudulent or other serious criminal activity—it is hard to understand why a company would then be given potentially limitless timeframes to comply with that order. The Opposition believe there should be, at the very least, a time limit on orders to change a name believed to be intended to deceive the public of the company's true purpose. Companies that fail to comply with such an order within a reasonable period of time, and a 28-day limit seems reasonable to us, should also be penalised if they cannot provide a good reason for any delay or refusal to comply. I am happy to pause here if there is anything that the Minister would like to clarify.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I am happy to do that. The issue is in the drafting. I had to read this on a number of occasions and speak to officials before I got my head around it, but the provision achieves the purpose that the hon. Gentleman sets out. Clause 14(5)(2) states:

"The direction must be in writing and must specify the period within which the company is to change its name."

It is a fixed period of time. It sets out the ability to give a company more time in certain circumstances, but the intention is to do exactly as the hon. Gentleman wants: a company has 28 days to comply. It will be told how long it has to comply, and that may well be 28 days.

Stephen Kinnock: I thank the Minister for that response. As he pointed out, he had to read the provision several times in order to be clear on the drafting. Clause 14 (5)(3) says:

"The period must be a period of at least 28 days".

Our intention is to make it clear that it has to happen within 28 days. There is a clear difference between "at least" and "within". "At least" gives the impression that a company could have an unlimited period of time beyond those 28 days, whereas if we clearly state that it must happen within 28 days, then there is no room for doubt whatsoever. Would the Minister like to come back to me on that?

Kevin Hollinrake: Again, if the hon. Gentleman reads that in the context of clause 14(5)(2), he will understand that it is a fixed period of time. That is what companies will be given.

Stephen Kinnock: Maybe the Minister and I are just not seeing it through the same lens. I agree that there should be a fixed period, but I think it should be clearly defined that the fixed period must be a maximum of 28 days. Does the Minister think that the Bill as drafted makes that clear?

Kevin Hollinrake: The point is there may well be valid circumstances where a company might take longer than 28 days, for example if it needs to seek a resolution from its shareholders or directors. In those cases, a company might then apply to Companies House or the Secretary of State to extend that time period. That is where the "at least" comes in, and it must be seen in the context of the "within". Listen, I am not a lawyer. I do not think the hon. Gentleman is a lawyer. The lawyers have chosen to draft the legislation in this way. I do think it serves the purpose, but I can understand why the hon. Gentleman is seeking clarification.

Stephen Kinnock *rose—*

Dame Margaret Hodge (Barking) (Lab): Will my hon. Friend give way?

The Chair: Order. The hon. Member needs to respond first. Then the right hon. Lady can intervene.

Stephen Kinnock: You are absolutely right to keep us in line, Ms Bardell. We need to ensure we can operationalise the Bill in the clearest and most succinct way that leaves absolutely no room for doubt. The Bill is designed to regulate a sector of the economy that is like water; if it can find cracks to slip through, it will find them. We are trying to close those loopholes.

Dame Margaret Hodge: I am bewildered. The Minister may be too. Proposed new subsection (4A) in clause 14(5)(b) sets out that an application must be made "within the period of three weeks". Obviously the lawyers do not think it is bad to put "within a period of three weeks" in that particular context. If someone says "at least", that is a minimum, not a maximum. At least is a minimum. I cannot think that a lawyer would not have common sense about it. Perhaps the Minister wants to go away, reflect on this and move an amendment later. I do not believe lawyers are quite that removed from reality and common sense. It literally says in that clause "made within". The lawyers do not mind using that term sometimes, so why can they not use it always?

Stephen Kinnock: My right hon. Friend has hit the nail on the head. I hope the Minister will reflect on that.

Moving on to clauses 15 to 22, we are content with clause 15, which would allow for objections based on the company name being misleading outside the UK and for the shareholders and directors of said company to be joined as respondents or defenders in the claim. In their February 2022 White Paper, the Government explained the rationale for expanding the grounds for objections to be made to a company's name. It was broadly accepted that the current restrictions, for instance on names that imply a link to the UK Government, were too narrowly drawn.

Responses to the consultation reflected widespread concern about the impact company names that are clearly deliberately misleading might have on legitimate businesses in cases where rogue companies try to suggest they have a connection to a well-known business and thus benefit from wider public recognition of, and perhaps even loyalty to, an established brand. Such appropriation of company names is now understood as a means of scamming would-be investors out of their money. Earlier this year, for example, there were high-profile reports of a scam involving a company calling itself Diageo Partners Ltd. It attempted to solicit an investment by presenting itself as an arm of the well-known drinks company of that name. Another case flagged by the Financial Conduct Authority in January involved similar attempts by scammers to link themselves with the financial institution Wells Fargo.

Clause 15 is a welcome recognition of those issues and should go some way toward addressing them. However, many legitimate companies that raise objections via the Company Names Tribunal are currently facing delays of three months or more before they can get a decision. I wonder whether the Minister could explain what steps the Government will take to help speed up the Company Names Tribunal process and ensure that fraudulent company names are corrected as quickly as possible.

Kevin Hollinrake: I will address the hon. Gentleman's points in my full response. There are some amendments we have tabled that address his exact points, and I would like to speak to those in detail.

2.15 pm

Stephen Kinnock: Excellent.

We support clause 16, which gives extra powers to the Secretary of State to direct a company to change its name only if he or she deems it to be as little as "a risk of harm" and makes it clear that harm can apply outside the UK. However, in clauses 15 and 16, the Bill seeks to broaden the scope of misleading or otherwise harmful effect, which can be used as grounds to require a change of name. The provisions cover the potential for a misleading company name to cause harm in any part of the world, not just in the UK, and that is surely welcome recognition of the reality of today's landscape of online fraud. Clearly, scammers and fraudsters have no respect for national borders and it is right that a UK company that is causing or attempting to cause harm in another country should be subject to enforcement actions requiring it to stop. The wording used in clause 16 and elsewhere, referring to actions that pose a risk of harm to the public, is exceptionally broad. Will the Minister expand on how that definition might be given greater clarity and, indeed, clearer definition? Will he provide some practical examples of how those powers might be used? I look forward to his insights.

Clause 18 introduces a procedure that allows the Secretary of State to direct a company to change its name where the name breaches the requirements of the Companies Act 2006, including as amended by the Bill. Failure to comply would be a criminal offence by the company and all responsible officers. The provisions in clause 20 would empower the registrar forcibly to change the name of the company if the company does not do so. That all sounds eminently sensible and we support the measures.

We support clause 21, which makes consequential amendments to the new powers to change a company name under the Bill, for example, because it contains computer code. That requires the registrar to replace the old name with the new one on the register. We also support clause 22, which provides for the Secretary of State to allow company names that are otherwise prohibited where considered necessary for national security or to prevent or detect serious crime.

While the previous clauses refer to company names, clauses 23 to 27 refer to a company's trading name or business name, which can be different from the company name registered with Companies House. Business or trading names do not need to be registered with Companies House, but they need to adhere to the general restrictions listed in part 41 of the Companies Act 2006.

Clauses 23, 24 and 27 make similar changes to trading names as clauses 10, 16 and 22 in respect of company names. We have no objections there, although my hon. Friend the Member for Feltham and Heston might wish to speak to her amendment to clause 27 shortly. Clause 25 prohibits a company from using a business or trading name that is the same as a company name that it has been ordered to change. Continuing to use a trading name in such circumstances amounts to a criminal offence by the company and every responsible officer. Clause 26 states that where a company has been ordered to change its name, it is a criminal offence for an officer or shareholder of that company, with some exceptions, to use that company's name as the business name for another company. We recognise the sound reasoning behind each of those clauses.

Kevin Hollinrake *rose—*

The Chair: Order. Will the Minister take a seat for a second? Seema Malhotra wants to make a contribution. If Members are looking to speak to amendments, may I remind them of the convention of bobbing? It helps the Chair out.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): Thank you, Ms Bardell. I do not think we were fully clear between us. It is a pleasure to serve under your chairship. I rise to speak to amendment 76, which is in my name and the name of my hon. Friend the Member for Aberavon. I want to conclude on the remarks he has already made.

Clause 27 sets out exceptions to name change directions if the Secretary of State is satisfied that it is in the interests of national security, or of preventing and detecting serious crime, for a business to carry on operating under a name that goes against regulations. We have tabled this amendment to require any exemption to a name change direction on the grounds of national security to also be subject to appropriate transparency.

Amendment 76 is a probing amendment designed to clarify the purpose and circumstances in which the Secretary of State can use their powers of exemption, and who will be aware of how the exemption is being used. The Minister may tell me that some of this is subject to greater security. In that case, which body or Committee would be aware, even under Privy Council rules, of the use of these powers?

Kevin Hollinrake: It is a pleasure to serve with you in the Chair, Ms Bardell.

As Members will have noted, this group is large and includes both amendments and clauses. The hon. Member for Aberavon—I appreciate his kind words and those of the hon. Member for Feltham and Heston—has tabled many amendments, and they would make changes across multiple clauses. It will therefore be helpful for all Members if I lay out the effects of the clause as currently drafted, before turning to the amendments and the many points made during the debate.

Clauses 14 to 22 together form the majority of the chapter on registered company names. At present, the Companies Act 2006 leaves it to the discretion of the Secretary of State to determine the time period within which a company must comply with a direction to change its name. Clause 14 amends that to standardise the various direction-issuing powers already found in part 5 of the Companies Act 2006 and those that are inserted by this Bill. This means that in all instances where companies are directed to change their registered names, they must do so within at least 28 days of the date of the direction. *[Interruption.]* There are two things I would say to the hon. Member for Aberavon. Clause 14 must be looked at in context, and the point is that proposed new subsection (2A) of section 64 of the Companies Act would give

"a period of at least 28 days beginning with the date of the direction."

Combined with new subsection (2) of section 76 of that Act, as inserted by clause 14(5) of this Bill, that means the direction will be a fixed period. There will be a fixed period, just as he wants, and in all likelihood it will be 28 days. It may sound like odd drafting, but the "at least" part is to ensure that the direction cannot be less than 28 days to give companies a reasonable chance to make the change. Once the decision has been made on how long the company will get, that will be a fixed period, unless the company provides justification for changing it.

Dame Margaret Hodge: Further on in the Bill, there are a lot of Henry VIII powers. I cannot see the justification in this context, and perhaps the Minister can advise us why we cannot put 28 days in the Bill. It has to be "at least", but it also has to be "at most". Let us just put that in the Bill. I do not know why we give any Minister discretion on this. It ought to be in the Bill.

Kevin Hollinrake: It is in the Bill. The point is that the company, in some circumstances, can effectively apply to have that time period extended. That is the point of this; that is where the "at least" bit comes in.

Seema Malhotra: Perhaps the Minister can clarify whether a period of 128 days given in writing would be in line with the terms of the clause. Did he go back to the lawyers to see whether the clause could be redrafted to read that the period must be a maximum of 28 days, beginning with the date of direction? That would still allow for the terms of proposed new subsection (2B) and a permitted extension within three weeks.

Kevin Hollinrake: We need to allow for some discretion when certain companies cannot comply because of certain consequences and for whatever reason. As a simple example, a company might have to get an agreed resolution between directors or shareholders to change its name. That is why the term "at least" applies in the clause.

I would like to move on, because there is more that I would like to share with you, which deals with the issue from a different direction. I will come back to you, I promise you.

The Chair: Order. May I remind the Minister and other Members to speak through the Chair?

Kevin Hollinrake: I apologise. I will not do it again.

Clause 15 makes a set of changes in how objections to a company name are to be considered by the company names adjudicator, established under section 70 of the Companies Act 2006. In cases brought before the adjudicator under section 69 of the Act, the company complaining over another's misuse of a name is known as the applicant, and the counterparty to that complaint is the respondent. Clause 15 amends section 69 in several ways. First, in recognising that the activities of companies registered in the UK are not constrained by our borders, it removes the geographic scope of complaints that the adjudicator can consider. That allows the adjudicator to consider the ability of a company name to mislead members of the public in jurisdictions other than the UK.

Secondly, the clause plugs a loophole in the existing legislation that allows directors of respondent companies to resign their position to avoid being joined alongside the company itself in the adjudication proceedings. Finally, at present it is the case that unless it can be demonstrated that the respondent registered a name in order to obtain money from the applicant, an application

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must be dismissed if the respondent has begun trading under the name or has incurred substantial start-up costs. That defence will no longer be available.

Clause 16 amends the Companies Act to lower the bar in terms of the harm test. Currently, section 76 of the Act allows the Secretary of State to direct a company to change its name if, in his opinion, the name gives such a misleading indication of its activities that it is likely to cause harm to members of the public. In future, the Secretary of State will form a view on the basis of whether the name poses a risk of harm, instead of considering whether the name is likely to cause harm, thus giving the Secretary of State greater discretion in the exercise of that power. The clause also clarifies that the potential harm at issue need not manifest itself in the UK alone, but might do so anywhere in the world.

Stephen Kinnock: The Minister is being very generous in giving way. The issue with clause 16 is the term

"pose a risk of harm to the public",

which seems to be very broad. Can he expand on how that risk might be more clearly defined? Can he give a practical example of how the proposed powers might be used?

Kevin Hollinrake: If I may, I will come back to the hon. Gentleman on that point once I have some information on it from my officials.

Clause 17 will give the Secretary of State the ability to direct a change of a company name where, in his view, it has been used, or is intended to be used, to facilitate the commission of an offence involving dishonesty or deception, such as fraud.

Stephen Kinnock: Briefly on clause 17, I would just like to mark the card because, again, there is an issue with the use of the phrase:

"The period must be a period of at least 28 days"

in proposed new section 76A(3) of the Companies Act. I suggest that that phrase should be replaced with "This period must be a period of no more than 28 days, beginning with the date of direction", because I think it would be so much clearer and tighter.

Kevin Hollinrake: I will come to that, but the hon. Gentleman's solution to that does not give any discretion should a company need more time. *[Interruption.]*

The Chair: Order. If Members wish to contribute, they should do so in the usual way.

2.30 pm

Kevin Hollinrake: That is the reason why the clause is drafted in that way, but I will come back to the hon. Gentleman's point before the end of my remarks.

The ability to direct a change of a company name recognises that there may already be some companies, among the 4.5 million or so companies already on the register, with names that are facilitating criminal conduct or have the ability to do so. In order to address those instances that may come to the Secretary of State's attention, the clause will give him the ability to direct a company to change its name. The clause also sets time frames for compliance, penalties and methods of appeal.

I turn now to clause 18, which gives the Secretary of State the ability to direct the change of any company name already on the register of companies that appears to them to contravene any requirement of part 5 of the Companies Act 2006. The Secretary of State can also direct a change of name if, at the time of registration, they had proper grounds for forming an opinion on whether the name was in itself an offence or was offensive, being used for criminal purposes or contained computer code. Without the ability to take action to address such names once incorporated, undesirable impacts can go unchecked. A consequential amendment applies this section to provision on overseas companies.

Clause 19 complements clause 11 of the Bill. Clause 11 makes it unlawful for a company to be registered with a name that contains or comprises computer code. Clause 19 addresses the possibility that computer code lurks among the names of the 4.5 million or so companies already on the register, empowering the registrar to determine a new name.

Clause 20 provides the registrar with the power, by her own action, to change a company's name where it has not followed a direction to do that itself. Where she does so, she must inform the company and annotate the register accordingly.

Clause 21 makes a consequential amendment related to the administrative aspects of the company name-changing powers contained within the Bill, specifically the duty of the registrar to issue a new certificate of incorporation following a change of a company's name.

Clause 22 introduces a section into part 5 of the Companies Act that gives the Secretary of State discretion to disapply any prohibition on naming a company or operating under a company name where, in his view, that is justified in the interests of national security or for the purposes of preventing serious crime. On the point about the exercise of national security, commitments to transparency on security exemptions might well by their nature defeat the purpose of the exemption's use.

I turn now to amendments 87 to 92, tabled by the hon. Members for Aberavon and for Feltham and Heston. The amendments concern clauses 14, 17 and 18, which I have just taken Members through. I thank the hon. Members for the amendments, as they have helpfully highlighted a gap in the Bill. We acted on that yesterday by tabling amendments that address the issue and, I hope, resolve it, albeit in a different way. I refer hon. Members to new clause 34, which effectively allows the registrar to instantly suspend the material on the register referring to the name. In that way, the Bill gives the Secretary of State a new range of powers to direct companies to change their names that supplement and strengthen the existing powers under the Companies Act. [*Interruption.*] That is on page 65 of today's amendment paper.

In respect of the existing provisions, it is at the Secretary of State's discretion to determine the period within which a company must comply with directions. Clause 14 of the Bill seeks to regularise that period across both existing and new direction provisions in part 5 of the Companies Act. That period would be a

minimum of 28 days from the date of direction. These amendments seek to make the period no more than 28 days.

I have sympathy with the view that companies should not be afforded longer than necessary to take the steps to comply with a direction. I would, however, draw hon. Members' attention to the fact that, in respect of the new classes of prohibited name, the Bill is drafted to provide the registrar with the discretion to remove the name of the subject of the direction from the publicly accessible register where a direction has been issued. I assure hon. Members that where there is potential for harm to be caused, the registrar will exercise that discretion and, therefore, the harm will cease at the point the direction is issued, regardless of the length of the compliance period.

Where a name is removed from the register, it would normally be replaced with a company registration number. I anticipate that we will legislate in secondary legislation for the registrar to annotate the register, explaining that the name had been changed because it was the subject of a direction. The Opposition's amendments have highlighted that the suppression capability is not at present available to the registrar in all circumstances where a direction might have been issued. The Government amendments will ensure that in future it will be. Members can see those amendments in the amendment paper and will have the chance to debate them in a future sitting.

Clauses 23 to 27 comprise a chapter on business names. Clause 23 mimics clause 10, which I explained earlier, in the context of the use of business names in the UK. It builds on existing safeguards in part 41 of the Companies Act 2006, which makes it an offence for a person to carry on business that gives the impression of a connection with the UK Government and public authorities. The clause supports that framework by making an amendment to the 2006 Act that provides safeguards in the international sphere. The clause also contains the same safeguards for those conducting business with legitimate connections.

Clause 24 amends section 1198 of the 2006 Act to lower the threshold for the likelihood of harm required to satisfy the legal test. Currently, it is an offence for a person to carry on business in the UK under a name that gives such a misleading indication of activities that it is likely to cause harm to members of the public. In future, the offence will be based on whether the name poses a risk of harm to the public.

Clause 25 closes a loophole in existing legislation. At present, there is nothing to prevent a company that is the subject of a direction or order from carrying on business in the name that it has been directed or ordered to change. The clause makes it an offence to do so. There are exceptions to that where the period for complying with the direction or order has not passed, where the company has since been registered with the name following approval under proposed new section 57B of the 2006 Act, or where the direction or order was given before the clause commences.

Clause 26 introduces a proposed new section in the 2006 Act and builds on what is done in clause 25. Clause 26 makes it an offence for a company to carry on business in the UK under a name that another company has been directed or ordered to change where both companies share, or have shared, the same officers or shareholders.

Clause 27, the final clause in the group, introduces a proposed new section in the 2006 Act and gives the Secretary of State discretion to disapply any restriction or prohibition on carrying on business under a name, if it is in the interests of national security or for the purposes of preventing or detecting serious crime. Where such discretion is exercised, the Secretary of State must give written notice of confirmation to any relevant person. It is necessary that sufficient flexibilities exist in all areas to take the steps most appropriate to safeguard security and target serious crime.

Amendments 72 to 76 would impose a duty on the Secretary of State to publish details of instances where he had extended the deadline for companies to comply with directions that he had issued to them to change their company name. I am not sure, however, that it would achieve what the Opposition really intend it to. It is of course always dangerous to make assumptions, but I suspect that what those who have tabled the amendment really want is for information to be published about each and every direction that the Secretary of State has issued, and that is not what it would do. I reassure hon. Members that we will consider how that information might best be made available—potentially, for example, through annotations of the companies register, which would of course be available to view through the Companies House online service.

I thank Members for their patience. I have taken them through a technical but important part of the Bill. I hope that they will appreciate that their amendments perhaps do not have the desired effect, particularly taking into account the Government amendments that have been tabled.

Stephen Kinnock: I thank the Minister for coming back in such detail on our points. We certainly look forward to studying new clause 34. We have not really had an opportunity to look at it yet, but it is great to see that the Minister and his team have taken our amendments on board and come up with something that will hopefully enable us to find common ground.

I want to make two additional points. The first goes back over the ground of "at least" versus "within" debate. I spoke earlier about proposed new section 76A(3), on page 10, as introduced by clause 17(4), which says that the period must be a period of "at least" 28 days; our amendment suggests that it should be "no more than" 28 days. The Minister said that making that change would give no leeway to the Secretary of State to be able to override in certain cases. We accept that there are certain cases where further direction is required to extend the period; there may well be extenuating circumstances, and we certainly do not want to create a straitjacket for businesses—we take that point. However, proposed new subsection (4) does precisely that. That is why we should lay out in proposed new subsection (3) that the basic principle is "no more than" 28 days. We have no desire to change the provisions of proposed new subsection (4)—with extenuating circumstances, the Secretary of State should be able to extend the period.

We would be more than happy with that change. It only requires the insertion of "no more than" in proposed new subsection (3), and no change to proposed new subsection (4). That would give the right balance between

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the need for a basic, tightly defined standard and still having the ability for the Secretary of State to extend the period where required.

Kevin Hollinrake: As I said before, I think the Bill achieves the same objective; it might not be with the words of the hon. Gentleman's choosing, but I think the objective is served by the drafting we have. It may well also be served by the drafting he suggests, but I do not see the point of changing the wording when it already does the same thing.

Stephen Kinnock: I thank the Minister for that response.

My second point is on clause 15, which considers changing names. As we have said, the clause is a welcome recognition of the issues around name changes and companies using names for fraudulent purposes—trying to give themselves connections to well-known brands and so on. Many legitimate companies that raise objections via the company names tribunal are facing delays of three months or more before they get a decision. I asked whether the Minister could assure us that the Government are alive to the issue. What steps might they be taking to speed that process up?

Kevin Hollinrake: I am happy to. I think we would all acknowledge that, due to various reasons beyond any of our controls, tribunals have fallen behind in the cases they are hearing. I am very happy to look at the timeframes that the hon. Gentleman refers to, as I was not aware of specific issues. The important principle behind the clauses is that they allow the Secretary of State, via Companies House, to bear down very quickly when there is the risk of harm to individuals, companies or others.

Stephen Kinnock: In the light of the fact that new clause 34 has been tabled, which we have not yet had the opportunity to study, we will not press the amendment. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

The Chair: Does the hon. Member for Feltham and Heston wish to move any of the other amendments?

Seema Malhotra: In the light of there being some connection between them all, I think we will not press them.

Clause 14 ordered to stand part of the Bill.

Clauses 15 to 27 ordered to stand part of the Bill.

Clause 28

Registered office: appropriate addresses

2.45 pm

Stephen Kinnock: I beg to move amendment 86, in clause 28, page 17, line 14, at end insert—

"(2A) An address is not an 'appropriate address' if—

(a) it is not a place where the business of the company is regularly carried out;

(b) the registrar, upon inspection, has reasonable grounds to suspect that the company does not have permission to use the address; or

(c) it is a PO Box address.

(2B) The Secretary of State may by regulations make provision—

(a) for exceptions to subsection (2A) above; and

(b) for the registrar to exercise discretion to disapply subsection (2A) in exceptional cases."

This amendment seeks to clarify the Bill's definition of an "appropriate address" for a company's registration.

The Chair: With this it will be convenient to discuss the following:

Amendment 94, in clause 28, page 17, line 32, at end insert—

"(4A) After section 87, insert—

'87A Duty of the registrar to verify appropriateness of address of registered office

(1) This section applies where the registrar has received—

(a) a statement of the intended address of a company's registered office (under section 9(5)(a)), or

(b) notice of change of address of a registered office of a company (under section 87(1)).

(2) The registrar must assess the risk that the company is involved in economic crime.

(3) If following the assessment required by subsection (2) the registrar considers that there is a real risk that the company is involved in economic crime, the registrar must—

(a) take steps to determine whether the address which has been supplied is an appropriate address within the meaning of section 86(2), and

(b) refer the matter to the relevant law enforcement agency.'"

Clause 28 stand part.

Clause 29 stand part.

Stephen Kinnock: This important amendment seeks to clarify the Bill's definition of an appropriate address for a company's registration. We have talked many times, both in this Committee and elsewhere, about red flags in company formation and registration. It must be an overriding aim of the Bill to ensure that any indicators of suspicious activity can be swiftly and easily identified in order to ensure that the appropriate investigations and, where necessary, enforcement actions are carried out at the earliest possible opportunity.

One thing is glaringly obvious from the many recent reports on how criminals are able to exploit weaknesses in the company registration system. The widespread, unchecked use of false addresses for criminal purposes is surely one of the most urgent problems for the Bill to address. In evidence to the Committee last week, there was a high degree of consensus from all our witnesses that the fraudulent use of addresses is among the most serious problem within the current register.

Bill Browder provided a cogent summary of the issue. I will not quote him in his New York accent, but I am sure you can imagine it. He said,

"This whole post-box idea just lends itself to anonymity and so on. Why do people not just register their companies at their own home or their own business address if there is a legit company? What is this business with 2,000 companies in one strange industrial park in Glasgow?"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q152.]

Though all due respect to SNP colleagues—I am quoting, Ms Bardell, please don't shoot the messenger!

It is now a well-established fact that there can be hundreds, perhaps even thousands, of different companies registered to a single address. It is hard to think of a more obvious red flag. Ensuring that Companies House can more quickly and easily identify and investigate

specific addresses used illegitimately by multiple companies is a vital prerequisite for better enforcement of laws on economic crime.

There are other fairly basic steps that the Government could take to tighten up rules on the kinds of addresses companies can provide as part of the registration process. Amendment 86 provides some specific examples of how that could be done. We hope that the amendment can serve as a starting point for efforts to ensure a much more rigorous set of registration requirements than those currently in place. An obvious place to start is to tackle the apparent overuse of PO box addresses. They have been linked with fraud and other criminal activity in several high-profile cases highlighted in recent media reports.

The FinCEN files also provide evidence of the scale of the problem in the UK. In its February 2022 report on economic crime, the Treasury Committee also described how PO boxes provide many criminal enterprises with a highly convenient way to establish a front for illicit activities while making detection and tracing of those involved much more of a challenge for law enforcement. Amendment 86 would seek to tackle the issue by establishing a general presumption against allowing companies to designate PO box addresses when registering, while leaving open the possibility for exceptions to be made in some cases where there may be legitimate reasons to do so.

Our amendment also goes further by introducing a general requirement for companies to provide a UK address where it actually conducts its business on a regular basis. The absence of such a requirement under the current rules makes it much easier to obscure the true purpose of a company and much harder for law enforcement to trace that and control it.

In part 2 of the Bill, the Government are seeking to strengthen requirements for limited partnerships to provide an address that is its principal place of business in the UK. The Opposition welcome that approach and believe that it could and should be applied more broadly. Therefore, amendment 86 proposes that the address requirement for all companies should be brought closer in line with those of limited partnerships under part 2, as proposed by the Government.

The amendments are all designed with our shared aims and values at heart. I hope that the Minister will take time to reflect and consider their worth.

Alison Thewliss (Glasgow Central) (SNP): I support the amendment tabled by the hon. Member for Aberavon, and that tabled by the right hon. Member for Barking, because a lot more needs to be done to regulate what is an appropriate address and to verify it in the real world.

In his evidence, Graham Barrow mentioned a 92-year-old gentleman whose name has just been used by scammers for a second time. People fraudulently use names and addresses that belong to real people to set up companies and those people have no idea that their names have been abused. Graham Barrow also highlighted a piece on "You and Yours" on Radio 4 where a lady who had had Asda Limited registered to her terraced house in Huddersfield received 7 kg of post, and all kinds of other threats from bailiffs and others who turned up at her door. That goes to show how the current system is not working. I seek to be reassured by the Minister that the proposed clauses will be sufficient to deal with the problem.

Over many years I have been familiar with problems associated with Scottish limited partnerships—SLPs. The Ferret reported in October 2021 about a company named The Edinburgh Office—a company formation, agent-type of business—which had registered 2,000 companies at their registered address of 101 Rose Street South Lane in Edinburgh—there are no such things in Glasgow, obviously, but these things happen in Edinburgh. Perhaps they do not happen in Aberavon, but they happen in many, many places around the country. Such companies hide behind mailbox addresses. Many of them were at best iffy, others involved outright criminality and all kinds of nefarious activities.

There was a photograph in The Ferret article—I cannot pass it on to include in *Hansard*—which showed a boarded-up building. That should be a red flag: 2,000 companies registered to a boarded-up building that does not look like a working building at all, but those companies were allowed to carry on their business. I do not know whether the clauses will make a real difference and people will be empowered to check whether those addresses exist in the real world and are being used.

There is also the issue of companies abusing actual companies' real addresses too. David Leask and Richard Smith, who have been excellent investigative journalists, taking Scottish limited partnerships to task for many years, reported in *The Times* back in April this year that an SLP in the name of Alexey Krapivin called Clover Consulting Partners gave its listed address as that of the Edinburgh legal firm Burness Paull. Burness Paull said that it knew nothing about it. Clearly, it had been receiving mail, so I do not know the extent to which it checks such things, after receiving mail for a company that does not exist. In any event, it ceased to offer services for company formation to companies of that kind back in 2018.

This company had been using Burness Paull's address with absolute impunity, and it was not new to dodging the Companies House rules. The company was formed in 2005 and made no meaningful filings to Companies House until it was forced to register a person of significant control in 2017. That was 12 years of non-compliance with the existing Companies House rules, yet there was no comeback on that. I seek from the Minister provisions in the clauses around enforcement, which is not happening under the current rules. I need to be convinced by him that it will happen under the rules that he is laying out.

The clauses talk about fines on a standard scale, and all those kinds of things. Those fines are not even being issued. I have asked parliamentary questions about that. Since the rules came into force only one Scottish limited partnership has been fined for failing to register a person of significant control, and that fine was £210—nothing, in the scheme of things. I ask the Minister whether the rules will be enforced. Will addresses be checked, to ensure that they are real businesses, carrying out real work, with real companies and real people? If not, will he accept the amendment, which goes some way to ensuring that the companies exist at the addresses that they say they do. Without boots on the ground to check such things, it does not matter whether we set it up in Aberavon, Glasgow or Edinburgh; nobody will know that it is not true.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It is a pleasure to serve under your chairmanship, Ms Bardell. I support the amendment, and that tabled by my right hon. Friend the Member for Barking, because in many ways they go to the heart of whether the Minister is serious about stripping economic criminals of their balaclavas and cloaks of anonymity, which currently allow them to perpetrate some of the worst economic crime on the planet.

I said this morning that when we offer privileges to people in this country, whether benefits or a visa, we put them through the most substantial identification checks. We put those applying for visas for this country through a whole set of biometric checks, which I introduced. When we introduced them the first time around, and began washing those biometric checks against police computers, we discovered that visas had been issued in the past to some of the most obnoxious criminals on earth.

Verification checks are a good thing. I would say that they are required if we are to grant individuals the economic privileges that come through limited liability. That is the privilege that we are giving people when they register a company at Companies House. It is not just a free-for-all; it is a privilege that we created for the common good, and we should therefore ensure that we give it to not just anybody who happens to turn up but people we know. That is why we need a very clear story from the Minister about the regime that he will bring forward to ensure that the cloak of anonymity—these balaclavas on economic criminals—are gone once and for all. Unless we have that reassurance, the Bill will not be worth the paper that it is written on.

Dame Margaret Hodge: I rise to support amendment 86 and to speak to amendment 94 in my name. I have to say to the Minister that this is the first debate where there is a flaw in how the legislation is drafted, such that when the Bill becomes active, it will not serve the purpose that we all desire of it. I can see how we got there, but I ask him to consider looking at it in another way.

3 pm

Clauses 61 and 62, which we will consider later, set out specific clear duties on identify verification. That is very important. However, address verification is also important to prevent even people whose identities have been—we hope—clearly established from still being involved in setting up shell companies to be used for nefarious purposes at a whole range of addresses. I can see nothing at all in the Bill to say that there is a duty on Companies House to do a check on addresses.

I understand that we do not want Companies House to go knocking at every door—that would be hard—but we could introduce a risk-based assessment, as we are trying to through my amendment 94. With a risk-based assessment, one would check addresses on some sort of sample basis. Why is that important? As I understand it, at present people do not need to get the permission of someone whose address they choose to use. In the example given by the hon. Member for Glasgow Central, people did not need to get the permission of the person occupying an address in order to use it to establish a company. If I am wrong about that, the Minister can clarify that point. Am I wrong?

Kevin Hollinrake: Permission should certainly be sought; it is just that some people do not seek permission. That is the point behind the clause. We are putting provisions in place to clamp down on that behaviour and completely eradicate the possibility of someone doing that.

Dame Margaret Hodge: Okay, but I have not read anywhere in the Bill of a legal duty placed on an individual establishing a company to seek the permission of the person whose address it is, whether a householder or a business. I cannot see that in the Bill, so it would be helpful if the Minister could direct me to it.

That is point No. 1. My second point is that there is massive abuse of addresses, to which other Members have already pointed. In the FinCEN files, which I happened to have looked at again recently, one case involved a private address in Leicester that was used as the company address of 36 shell companies.

Kevin Hollinrake: I draw the Committee's attention to the wording of clause 28, on an "appropriate address":

> "A company must ensure that its registered office is at all times at an appropriate address…An address is an 'appropriate address' if, in the ordinary course of events…a document addressed to the company, and delivered there by hand or by post, would be expected to come to the attention of a person acting on behalf of the company".

It is therefore impossible to see how people could just pick any address, as some do now; that clearly would not be an appropriate address, because there would be nobody there to hand the correspondence on.

Dame Margaret Hodge: Interestingly enough, the example that I was halfway through describing proves that one could still choose an address and have documents delivered to it, but, if one had not sought permission of the person whose address it is, it could still be a phoney address.

To follow through on the example in the FinCEN files, a private address in Leicester had 36 shell companies, all with accounts in the Danske Bank in Estonia. The address was in fact that of the home of a Latvian cleaner called Dace Streipa—I hope I pronounced that correctly. When she was confronted by the journalist investigating the FinCEN files, she claimed to know nothing about it. Letters had kept appearing at her house, but she did not know what to do with them.

The other FinCEN files example was that of 175 Darkes Lane, Potters Bar, which I am sure the Minister will remember. It was home to more than 1,000 companies. It may be, then, that there is an obligation, but someone could choose any address, including my home address if they so wanted, and I am not sure that there is an obligation for the person who chooses that address to seek my permission to do so. If I am wrong, I am happy to take that back, but I do not think the clause that the Minister directed me to covers that. We want to stop the cuckooing activity.

Clauses 61 and 62 put duties on Companies House to ensure that identities are verified, but there is no duty to ensure the verification of addresses. That duty is needed: it is part of the proactive role that we talked about at the beginning of this morning's debate. It should be proportionate and could be done with a risk-based assessment, but if we do not place a duty on Companies

House to perform some sort of check on the addresses that are submitted in relation to the formation of each company, as well as a check on the identity of the individuals, we are digging a hole for ourselves and will find that the legislation we pass is not effective in the way that is wanted. I ask the Minister to give the idea really serious consideration, because I do not think the Bill goes far enough to give us the certainty that we seek on the legitimacy of companies that are formed.

The Chair: Order. Before I call the Minister, I remind the Committee that it is helpful if Members indicate in their substantive contribution whether they are going to press or withdraw an amendment.

Kevin Hollinrake: I hear clearly the comments made on both sides of the argument, but I think the provisions in the Bill do tackle the issues that Members are trying to tackle—

Dame Margaret Hodge: They don't.

Kevin Hollinrake: The right hon. Lady should let me develop my argument, if she does not mind.

We are all aware of the frequent problems that arise when criminals incorporate companies using an address that belongs to a person who has nothing to do with that company, or when criminals hijack the details of a legitimate company and change the address to one that is invalid or ineffective. The Bill contains provisions that will not only reduce the risk of that happening, but mean that when it does happen the registrar can take swifter action to remedy the situation, which I think is what Members are asking for.

The Bill will operate like this. Clause 28 imposes new duties on companies to ensure at all times that their registered office address is an appropriate address. The companies and individuals involved would be guilty of an offence if they did not make sure that the address was appropriate—

Dame Margaret Hodge: Will the Minister give way?

Kevin Hollinrake: Let me develop my point a little bit. The meaning is clearly defined in the Bill: an appropriate address is an address where it can be reasonably expected that documents sent to the company will come to the attention of a person acting on the behalf of the company. It is inconceivable that a Latvian lady in Leicester who does not know why she is getting correspondence could be defined as somebody who is able to pass on the documentation to a person acting on behalf of the company.

Dame Margaret Hodge: Will the Minister give way at this point?

Kevin Hollinrake: Let me just finish the other critical part of the definition. An appropriate address is an address where an acknowledgement of the delivery of documents is capable of being recorded.

Dame Margaret Hodge: The Minister has not answered the point about whether, in the Latvian cleaner example, her permission would legally have had to be sought for that address to be used, but let us put that to one side. He says that if it does happen, swift action will be taken; how on earth would that ever come to the knowledge of Companies House? How would it ever know if there is no system of spot checking to ensure that the addresses that are used are true? There is no system in the Bill. The main point of this whole argument is that we need a checking system—I accept that not every address would be checked, but it could be a spot-checking system—to ensure that the addresses are valid. That is not in the Bill.

Kevin Hollinrake: There are 4.5 million companies in the UK—

Dame Margaret Hodge: I know; there should be spot checks.

Kevin Hollinrake: And I do not think the right hon. Lady imagines that the registrar could go around them all. I am glad we agree on that.

Seema Malhotra: Will the Minister give way?

Kevin Hollinrake: I would like to finish the point. The key point is that the measure requires the people who control the company, be it the directors or persons of significant control, to make statements. If they make false statements or fail to comply with the requirement, they will be committing a criminal offence, as is every officer of the company who is in default.

What the right hon. Member for Barking seems to want is to have armies of address checkers going around the country. This is ex post regulation, which is a more effective means of regulation. I do not suppose that anybody on this Committee wants to inhibit the lawful, commercial activity of the vast majority of companies that go about their normal commercial business every single day.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: No, not at this point in time.

We are striking a balance between the two. These measures have to be seen in the context of the wider provisions of the Bill on checking the identity of directors and persons of significant control—the people who are controlling the company. If people make false statements, those people and that company will be guilty of an offence.

The shadow Minister wanted to intervene.

Seema Malhotra: Does the Minister agree that being able to use analytics to determine that 1,000 companies are registered at one address would not mean manually going through and using resources in that manner, and would mean—taking a risk-based approach—that we would identify where something needed to be done?

Kevin Hollinrake: Absolutely. We all agree with that. The registrar will look at that.

Seema Malhotra: When?

Kevin Hollinrake: If it is an example where 2,000 companies are registered at an address near Edinburgh, and somebody tries to register that address, that may well lead to a red flag. Companies House is investing in that capability, as part of its work. It is not just about people, but systems and automation of systems, in order to see those red flags. At that point in time, the

[Kevin Hollinrake]

system would potentially do what the right hon. Member for Barking wants it to do—raise a red flag. That could then be queried with the directors and the people who control the company, and could alert law enforcement authorities. I do not think anybody here is suggesting that Companies House becomes another law enforcement authority. There has to be information sharing between Companies House and the law enforcement authorities.

Liam Byrne: The Minister is being characteristically generous in giving way. The problem the Committee has with the argument about ex post facto regulation is that, if we take the example I gave this morning of the requirement to register persons of significant control, there are still 11,000 companies that have not registered persons of significant control, but there have only been 119 convictions. There is an enormous enforcement gap, which is a real concern to the Committee, not least because the powers that the Minister is seeking are for companies to verify an address, rather than creating a duty to verify the address. Witness after witness gave evidence to the Foreign Affairs Committee on the duty to verify the address, which is why that Committee, of which the Minister for Security was Chair, concluded that there must be a tough verification regime in place at Companies House.

Kevin Hollinrake: The right hon. Gentleman may think a duty to check 4.5 million addresses is proportionate. I think it would be disproportionate. The vast majority of those addresses are bona fide addresses of bona fide companies. We have to take a risk-based approach; I think we would both agree on that.

The right hon. Gentleman returns to resources. We have already had a long debate on resources. He knows that I agree that the registrar, and the law enforcement agencies for that matter, must have sufficient resources to ensure that the registration of persons of significant control is undertaken. That body of work is ongoing now with Companies House.

Stephen Kinnock: Would the Minister consider a PO box address to be an appropriate address—yes or no?

Kevin Hollinrake: No, and I will come to that point shortly.

Clause 29 provides an important new power for the registrar to deal effectively with those abusing our systems. As we have discussed and all agree, for too long criminals have acted with impunity, providing fraudulent addresses for companies set up deliberately to scam people, many of them vulnerable. We know the distress and inconvenience that can cause to many constituents, including when bailiffs arrive at the door in connection with a matter with which that person has no connection.

3.15 pm

Until now, the registrar has been able to act only when a third party makes an application to remove an address that has been used fraudulently. The key thing to note here is that that situation will end. The innocent third party is required to provide evidence to demonstrate that the company has no right to use the address. That sounds perverse, given that the person will have been using it without their permission. Once satisfied that the complainant has a case, the registrar can default the address, and the address can be immediately moved to Companies House, which means that mail addressed to the company is sent to Companies House and is likely never to be received by the company.

Although this assists the victim, there is currently no easy way for the registrar to deal with the abuse. There is also an administrative cost that cannot be recovered. Clause 29 will help to stop such criminal behaviour. Many Members will have heard from their constituents about the distress caused in these instances. I am making no criticism of the registrar; it is an effect of the currently inadequate powers that she has on which to act. The clause provides that regulations can be made to ensure that she can act and can do so effectively.

Companies will no longer be able to squat indefinitely at a default address. If they fail to provide an appropriate address, they may be struck off the register. They may also be subject to a criminal offence and daily default fines. These new powers in the Bill are one of the key ways in which we are taking action to reduce criminal activity facilitated by abuse of the companies register. They will empower the registrar to act in accordance with her new objectives and improve the quality of the information on the register. That goes back to objective 4, which requires the registrar to minimise unlawful activity.

Let me turn to amendment 86. I fully support the motivation behind ensuring that such addresses are always appropriate. Clause 28 introduces a revision to section 86 of the Companies Act 2006 to better define what constitutes an acceptable and effective address. Hon. Members will be pleased to note that the definition already prevents companies from registering with PO boxes, which is an aim of this amendment. A PO box would not satisfy the requirement to reassure the sender that their delivery would reach the hands of a company representative, and it would certainly not be capable of acknowledging delivery.

Alison Thewliss: What happens to all the companies that currently have a PO box, and how long do they have to comply with this measure?

Kevin Hollinrake: As for the period of compliance, we will let hon. Member know. There is a huge volume of records. We want Companies House to be more proactive. We do not want it to be swamped by information being supplied to it all at once. We need to make sure that the commencement order is carried out sensibly. Red flags could well be applied to a company address that has many other companies attached to it. If a company had registered multiple company directors or persons of significant control or had recognised multiple companies at one particular address, that should be the kind of red flag that, following a risk-based approach, would require checks and balances to be put in place. Those companies would be struck off the register and other actions would be taken against the individuals.

The new definition in clause 28 negates the need to include the reasonable suspicion element of amendment 86. Where the registrar, informed by the intelligence and information available to her, has reasonable grounds to suspect that the company does not have permission to use the address, she may come to the view that in the

ordinary course of events, the appropriate address conditions will not be met. The registrar will then either reject it or change it according to the circumstances.

Seema Malhotra: If I am following the Minister's arguments as he intends, is he saying that his view of objective 4 and how it would be interpreted means it would be implicit that the registrar would be expected to check addresses and ensure minimum fraudulent activity and so on? In response to the amendment tabled by my right hon. Friend the Member for Barking, which called for a duty on the registrar to verify the appropriateness of the address using a risk-based approach, I believe the Minister argued that that was implied and would therefore be done under the objectives as they stand.

I put it on the record that we agree with the new clauses and amendments that he has outlined and that were debated with clause 29. They are important. Does the Minister think that, even after his new powers and requirements are in place, the gap will be closed sufficiently? To say that the registrar could act on intelligence available to her either implies that somebody will give it to her or that there will be a function that will operate as if there were a duty. Is that his intention?

The Chair: I remind Members that interventions are supposed to be interventions and not substantive contributions.

Kevin Hollinrake: The objectives promote the integrity of the register. That is quite clear. The registrar therefore has the responsibility to act. The intelligence and information available to her could come from a number of sources, such as third-party sources, law enforcement agencies or financial institutions. Red flags within an organisation can come from a number of places. If a red flag leads to the conclusion that there are reasonable grounds to suspect the company does not have permission to use the address, the conditions will not be met and the registrar will either reject it or change it, according to the circumstances. The golden thread running through that is that the registrar has the power to act on information based on the risk-based approach, which conforms to the request from the right hon. Member for Barking that we do spot checks. A risk-based approach is far more effective than random spot checks. That is what we are trying to get to here.

The hon. Member for Glasgow Central asked about when people would have to move away from PO box addresses to an appropriate address. The earliest commencement by regulation is two months after Royal Assent.

Lastly, I turn my attention to the first element of amendment 86, which would have the effect of compelling companies to register their main place of business as their registered office. That would be problematic for many good companies. Let us take, for example, a company with a large, rural manufacturing facility, which might be considered its main place of business, and a city centre showroom. There are perfectly legitimate reasons for such a company to favour the city over the country as its registered office location. The amendment would prevent that. I hope hon. Members will be reassured that the provisions will be an effective means by which to monitor and police the accuracy of company address information and will feel able to withdraw their amendment.

Turning to amendment 94, I hope the right hon. Member for Barking will agree with me that the Bill's new definition of what constitutes an appropriate address for the purposes of a company's registered office address is an improvement on what has existed up to now. It requires the company to have authority to use the address on pain of criminal sanction for the company in breach and every one of its officers in default. I trust she and the Committee members will welcome the provisions that I have just described. I do not think it is proportionate to agree to routine or spot checking for each and every company and, in our view, we need to take a risk-based approach, which I think we all agree with, to make sure Companies House resources are used fruitfully.

In the light of the reforms proposed in the Bill, Companies House, armed as it will be with new powers and objectives, will home in on those companies that are most likely to be engaged in criminal activity. In some cases, intelligence and information-sharing enabled by measures in the Bill might suggest that the registered office address is a clue to that criminal behaviour and might prompt any one of a number of different approaches on the part of the registrar and, potentially, law enforcement agencies. For example, it is my expectation that in future Companies House will consider carefully whether to process multiple incorporations emanating from a single address, as described earlier, and deploy the new querying powers available to it before doing so.

Ultimately, the Bill seeks throughout to focus effort and resource where it will achieve the most meaningful impact. I hope that the right hon. Member for Barking will be reassured that proactive intervention, based on sound risk assessment, is a more cost-effective approach to take and that she will feel able to withdraw her amendment.

Liam Byrne: Perhaps the Committee could take more comfort from the approach the Minister has enunciated this afternoon if he could give us a sense of how many companies he thinks Companies House would be able to check under the new regime each year? Can he give us a sense of the scale and proportion?

Kevin Hollinrake: That is something that we will need to see—the plan for Companies House and the resources needed for that. A figure of £50 or £100 was quoted; if the company formation fee was £50, that would raise £20 million a year. That is quite a significant amount of money. As I said, cart and horse, first we need to see what powers and resources Companies House needs, and then we can apply the right levy in terms of the company formation fee to ensure that the resources are available. A review will also be conducted to ensure that those resources will still be available as time goes on. On that note, I conclude my remarks.

Dame Margaret Hodge: I want to say a number of things. First, may I say to Conservative Back Benchers that I do not think anyone in the room wants to do anything other than encourage maximum commercial activity to maximise growth? Right? I have looked at the issue for a long time, and my view, which I believe is shared by the Minister, is that if we do not sort out the dirty money, Britain will become a less attractive place in which to invest and grow. Let us be clear that we are not in any way trying to over-regulate or impede economic and commercial activity; we want to encourage it. Let us have that as a shared objective.

[Dame Margaret Hodge]

Secondly, I accept and applaud the work the Government have done on trying to hone down the definition of appropriate address. The proposed clauses and amendments on that are really important, but then comes the "but", which is that all the evidence we have, from all the leaks we have had over the past decade or so, demonstrates that shell companies abuse addresses for nefarious purposes. That is how they work.

In his concluding remarks, the Minister said that Companies House would intervene "where intelligence and reasonable information was made available to her". We are not asking for the addresses of 4.5 million companies, or whatever the figure is. The idea of knocking on the door of all such companies is obviously completely and utterly totally absurd, and that is why we are calling for a risk-based approach. The shadow Minister, my hon. Friend the Member for Aberavon, made a very good point; if we could just use the technology intelligently, we could then see whether the same address was being used by 10, 20 or 30 companies. There are ways of doing that, but at present, there is no duty or obligation on Companies Houses to check. I have not found it, but perhaps the Minister will be able to show it to me. We also know that if we do not make that duty clear, it will fall out of the in-tray and go to the back of the to-do list. We then leave the opportunity available for dirty money to enter the country and not be checked by Companies House.

Kevin Hollinrake: If the right hon. Lady looks at the literal interpretation of her amendment, she will see that it puts an obligation on Companies House to check every single address in the UK. It says:

"Duty of the registrar to verify appropriateness of address of registered office".

It does not say "on a spot-check basis". It seems to be a blanket provision. I agree with much of what the right hon. Lady has said, but I think we need to be careful. The drafting of this has to be right, because, as she rightly says, we do not want to impede the normal commercial activity of 4.5 million businesses in the UK. That would be detrimental to our constituents and the citizens of this country.

3.30 pm

Dame Margaret Hodge: What I would say in answer is that we have had incredibly good advice on drafting, from both the House itself and our own advisers. I would urge the Minister to look at subsection (2) of my amendment, which looks at risk. If the amendment is not drafted absolutely perfectly, then I apologise, but we have done the best we can with the resources available to us. I am not in any way suggesting a 100% check. I am suggesting a risk-based check. If this provision is not included, we will be back in three years' time and the Minister will be saying, "Oh my god, there's a massive loophole, and we have to fix it." Fix it now. That is all we are saying.

If I have the drafting wrong, I am happy to talk to the Minister and get it right. I want a risk-based check by Companies House for when red flags come out. By looking at and interrogating computer data, the registrar actually does it herself, instead of waiting for and depending on intelligence and reasonable information that is available—as the Minister said, in his words, which I assume were provided for him.

Liam Byrne: When my right hon. Friend has those conversations with the Minister, will she ensure she also talks to the Minister for Security? He was Chair of the Foreign Affairs Committee when it took evidence from a number of witnesses who explicitly called for a duty to verify addresses. That point was underlined in the Foreign Affairs Committee's last report on illicit finance.

Dame Margaret Hodge: I am very happy to do that. I think we all want the same thing. All we are trying to do is find the best way of doing it. I will be pressing this amendment to a vote, I am afraid. My warning to the Minister is that if he does not do the work in this area, he will find that he has left a very wide loophole, which will be exploited by those who want to use us as a destination for illicit finance.

Stephen Kinnock: It is difficult for me to match what my right hon. Friend the Member for Barking has so eloquently said and what other colleagues have said. I think we need to reinforce the point that we need somewhere in the Bill a very clear indication that it is the duty of the registrar to conduct risk-based assessments. If not, the Bill will leave a loophole, and we should not allow that to happen. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 94, in clause 28, page 17, line 32, at end insert—

'(4A) After section 87, insert—

"87A Duty of the registrar to verify appropriateness of address of registered office

(1) This section applies where the registrar has received—

(a) a statement of the intended address of a company's registered office (under section 9(5)(a)), or

(b) notice of change of address of a registered office of a company (under section 87(1)).

(2) The registrar must assess the risk that the company is involved in economic crime.

(3) If following the assessment required by subsection (2) the registrar considers that there is a real risk that the company is involved in economic crime, the registrar must—

(a) take steps to determine whether the address which has been supplied is an appropriate address within the meaning of section 86(2), and

(b) refer the matter to the relevant law enforcement agency."'—*(Dame Margaret Hodge.)*

The Committee divided: Ayes 7, Noes 9.

Division No. 2]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hunt, Jane
Ansell, Caroline	Mann, Scott
Crosbie, Virginia	
Hollinrake, Kevin	Stevenson, Jane
Hughes, Eddie	Tugendhat, rh Tom

Question accordingly negatived.

Clause 28 ordered to stand part of the Bill.

Clause 29 ordered to stand part of the Bill.

Kevin Hollinrake: I beg to move, That clause 29 be transferred to the end of line 33 on page 76.

This motion would move clause 29 to the end of Part 1 of the Bill. It is proposed that it would be placed there under a new italic cross-heading, alongside other new clauses about moving addresses in the companies context (see NC5 and NC6).

The Chair: With this it will be convenient to discuss the following: Government amendment 7.

Government new clause 5—*Rectification of register: service addresses*.

Government new clause 6—*Rectification of register: principal office addresses.*

Government new clause 8—*Power to require businesses to report discrepancies*.

Government amendments 44 to 48.

Government amendment 50.

Kevin Hollinrake: The purpose of this set of amendments and new clauses is to better standardise address information requirements across the Companies Act 2006 to allow the registrar to take appropriate action when information is erroneous or misleading.

It is important for users of the company register that the information they find on it is accurate and has genuine utility for them. The amendments standardise the address information that companies will be required to file in relation to corporate directors, company secretaries, relevant legal entities and registerable persons—the latter two being the categories of people with significant control of a company. In future, a service address and a principal office address will be required for all those categories. The former measure will give certainty about where documents can be served, and the latter will give clarity about the physical whereabouts of the party concerned.

New clauses 5 and 6 address the circumstances in which it appears that the stated service address does not fulfil its requirements or that the person of significant control or the company cannot demonstrate that the stated address is their principal office address. The new clauses imitate section 1097A of the Companies Act 2006 as amended by clause 29 of the Bill.

Clause 29 amends the 2006 Act to give the Secretary of State the power to make regulations enabling the registrar to change a company's registered office address when there is reason to believe that it is no longer appropriate. That power, and those contained within this group of amendments, will be an important weapon in the fight against identity hijack and abuses of innocent people's address details.

Similarly, the purposes of the remaining amendments in the group are to strengthen the framework for changing address when it is expedient to do so, and to improve the utility of address data. I trust that the Committee will agree that these well-considered amendments and additions will add value for users of the Companies House registers and afford further protection against the nefarious use of private individuals' information.

Seema Malhotra: I am grateful for the opportunity to speak in support the Government's amendments and new clauses, which we welcome.

As the Minister has set out, new clauses 5, 6 and 8 give the Government the power to introduce regulations that authorise or require the registrar to change addresses and to serve documents to those with significant control. He also mentioned that new clause 5 mirrors section 1097A of the Companies Act, which confers a regulation-making power to enable the registrar to change a company's registered address, and an equivalent power for a company's service address. New clause 6 does the same for the registered principal address of a relevant person

As we have been discussing today, registering an address at Companies House does not require the permission of the owner or occupier of that location. It goes without saying that the negative impacts are significant, from visits from debt collectors or bailiffs to damage to a company's credit rating. Under the regulations, anyone can apply to the registrar to have the registered office of a company changed, following a procedure. It is right that the Bill broadens that power to service addresses and principal addresses. Those are important steps, and the wider amendments close loopholes on company addresses.

New clause 8 allows documents to be served on persons of significant control over a company as well as on directors, secretaries and others. Amendment 44 requires a corporate director to include a principal office in all cases, rather than its registered or principal office. Amendments 46 and 47 do the same for corporate secretaries. Amendment 45 requires a company to provide a service address for directors who are not individuals. Amendment 48 requires a company to provide a service address for persons of significant control who are not individuals. Amendment 50 requires a principal office to be provided for all partners that are a legal entity in a limited partnership.

It goes without saying that all those amendments are welcome in limiting the value of registered offices used as a way of concealing where a company does its business. We support them, but a question remains about the missing link in the chain. We must ensure that, in the use of the powers that we have been talking about, the registrar will—I hope, from our discussions with the Minister—in due course have a duty to ensure that whatever can be done with a risk-based approach can make the most use of the additional powers and requirements being introduced in the Bill. Without that, it feels as if their impact will be far less, and the achievement of the goals of those powers and requirements will be considerably less than otherwise.

Question put and agreed to.

Clause 30

Registered email addresses etc

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 31 stand part.

Kevin Hollinrake: Clauses 30 and 31 relate to new requirements for companies to provide an email address to the registrar. When the Companies Act 2006 was drafted, the vast majority of filings presented by companies to Companies House were on paper, and communications

[Kevin Hollinrake]

to companies from Companies House were posted to the company. The effect of that, especially in the modern digital world, is to slow things down. These days, the vast majority of filings are made digitally, and the Companies Act needs to change to reflect that reality and more modern working practices.

Clause 30 will require that all companies maintain an appropriate email address. One benefit of that is that communications with a company can be expected to be quicker. In addition, it is a cheaper way to communicate and will provide savings for both Companies House and businesses. A failure to provide an appropriate email address will be an offence, and when a company notifies a change to its registered email address it will be obliged to provide a statement that the email address is appropriate. That will assist the registrar in instances where the email address is found not to be appropriate, and it turns out to be something other than a genuine mistake. I provide reassurance, however, that the effect of subsection (7) is that registered email addresses will not be made available for public inspection. That will reduce the risk of their being used fraudulently.

Clause 31 describes the means by which companies already on the register must provide their appropriate email address. Companies will be required to provide the appropriate email address in a statement submitted alongside their first confirmation statement after the requirements outlined in clause 30 come into effect. That transitional period has been selected to reduce the burden both on companies and on Companies House. Given the number of companies already registered with Companies House, it will provide a staggering of notifications of appropriate email addresses, allowing Companies House to deal with them in a timely manner. Companies will not have to provide an extra document to Companies House until they already have to make a required filing. That is a sensible and proportionate method of ensuring compliance with the new requirements. If the company does not supply the appropriate email address with its confirmation statement, it will be in breach of the requirements.

Seema Malhotra: I have just a few remarks. We have no issues at all with the clauses, and welcome them. Amending the Companies Act to require all companies to maintain an appropriate email address that can be used in correspondence and administrative matters with Companies House seems appropriate. The email address would be trusted, and any emails sent by the registrar would be expected to come to the attention of a person acting on behalf of the company. We therefore support clause 30.

It is also very sensible to have a transitional period. I am not sure whether clause 31 says how long the transitional period will last before the previous clause comes into effect, and I am not sure whether the Minister said so either. He may have a view on that, or he may come forward with it later.

Kevin Hollinrake: I am happy to come back to the shadow Minister with that information in due course.

Question put and agreed to.

Clause 30 accordingly ordered to stand part of the Bill.

Clause 31 ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

3.47 pm

Adjourned till Thursday 3 November at half-past Eleven o'clock.

Written evidence reported to the House

ECCTB 06 Transparency International UK, prepared with support from Open Ownership

ECCTB 07 Letter from Kevin Hollinrake MP, Parliamentary Under-Secretary of State at the Department for Business, Energy and Industrial Strategy, dated 31 October 2022, re: further Government Amendments

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Seventh Sitting

Thursday 3 November 2022

(Morning)

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No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 7 November 2022

The Committee consisted of the following Members:

Chairs: Mr Laurence Robertson, Hannah Bardell, † Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Hollinrake, Kevin *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Mann, Scott *(Lord Commissioner of His Majesty's Treasury)*
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† **attended the Committee**

Public Bill Committee

Thursday 3 November 2022

(Morning)

[Julie Elliott *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 32

Disqualification of persons designated under sanctions legislation: GB

11.30 am

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 1, in clause 32, page 22, leave out lines 8 to 12 and insert—

"(1) This section applies in relation to a person who has, at any time on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force, become a person subject to relevant financial sanctions and who remains so subject."

This amendment and Amendment 3 would mean that a person who is subject to sanctions is disqualified under the GB directors disqualification legislation only if those sanctions relate to asset-freezing.

The Chair: With this it will be convenient to discuss the following:

Amendment 93, in clause 32, page 22, line 12, after "force" insert

", or a person who is suspected of the facilitation of the evasion of sanctions by a person so designated."

This amendment seeks to expand the criteria for disqualifying individuals from being company directors to include people suspected of facilitating evasion of UK sanctions by sanctioned individuals, in addition to sanctioned individuals themselves.

Government amendments 2 and 3.

Amendment 83, in clause 32, page 22, line 20, at end insert—

"11B Designated persons: requirement to notify the registrar

(1) This section applies in relation to a person who becomes a designated person as defined by section 9(2) of the Sanctions and Anti-Money Laundering Act 2018 on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force.

(2) If the person changes any details relating to any company on the register in the three months prior to the person becoming a designated person, the registrar must inform the Office of Financial Sanctions Implementation and the National Crime Agency of the changes made."

This amendment requires Companies House to notify the OFSI and NCA if a designated person has changed any details relating to a company in the three months prior to their designation.

Clause stand part.

Clause 33 stand part.

Government amendments 4, 5 and 6.

Clause 34 stand part.

Clause 35 stand part.

Kevin Hollinrake: It is a pleasure to see you in the Chair, Ms Elliott.

Government amendment 1 is one of six amendments that the Government have tabled to clauses 32 and 34. Before I discuss the Government amendments and those tabled by the Opposition, it is worth explaining what clause 32 does in order to understand better the purpose of the Government amendments.

Currently, individuals subject to an asset freeze—designated persons under the regulations that contain prohibitions or requirements of the sort referred to in section 3(1)(a) of the Sanctions and Anti-Money Laundering Act 2018—can continue acting as a director. They can also be involved, directly or indirectly, in the promotion, formation and/or management of a company. It is not appropriate for asset-frozen individuals to be company directors. It would be perverse for a person who is forbidden from dealing with their own funds or economic resources none the less to be free to direct a company.

Clause 32 prohibits individuals subject to an asset freeze from acting as directors, and does so by amending the Company Directors Disqualification Act 1986 to prohibit individuals subject to an asset freeze on or after the day the provision comes into force from acting as directors of companies or directly or indirectly taking part in or being concerned in the promotion, formation or management of a company. Such individuals will only be permitted to take part in such activities with the leave of the court.

An individual in breach of that prohibition will be committing an offence, the maximum penalty for which will be two years' imprisonment or a fine, or both. It will be a defence for the person if they did not know and could not reasonably have known that they were subject to an asset freeze at the time that they acted as a director or were involved in a promotion, formation or management of a company. The provision will take effect in England and Wales, and Scotland; clause 34 makes the equivalent provision for Northern Ireland.

Government amendments 1 to 6 all work to the same purpose. Collectively, they will ensure that new director disqualification measures impact those who should be prevented for public policy reasons from acting as directors, namely individuals who are subject to an asset freeze. The amendments will also ensure that we do not disproportionately and unnecessarily extend measures to categories of people whose sanction status has no bearing on whether they are fit to act as company directors. The narrower definition introduced via the amendments includes only designated persons subject to asset-freeze measures of the sort described in section 3(1) (a) of SAMLA.

Stephen Kinnock (Aberavon) (Lab): Could I trouble the Minister to explain a little more about what categories of people who are sanctioned should therefore allowed to be designated as unqualified as directors under the legislation? He has said that amendments are an attempt to narrow the definition to assets-based, but is he therefore saying that someone who is sanctioned for human rights abuses should nevertheless be able to be qualified as a GB director?

Kevin Hollinrake: I will go on to describe the categories. As the hon. Gentleman knows, an assets freeze is a type of financial sanction. Only those sanctions are relevant

to someone's ability to manage, form or promote a company. Non-asset freeze financial sanctions, such as securities and money market instrument prohibitions, can apply to a broader category of person beyond designated persons, for example, all persons connected to a particular country. To subject entire populations of countries to the directorship ban is grossly disproportionate. It would also be operationally unenforceable, as only designated people appear in published sanctions lists.

Dame Margaret Hodge (Barking) (Lab): I do not understand that. I do not know whether the Minister can explain it in ordinary language. It sounds to me like people with other financial interests will not be subject to this measure. I am sorry if I am being clueless, but I just do not understand what is being excluded at this point, and therefore what is included in this very welcome amendment.

Kevin Hollinrake: As I said in my explanation, for sanctions such as securities and money sanctions, those market instruments can affect entire populations; they do not just affect an individual. Those kinds of broad actions affect whole populations.

Dame Margaret Hodge *rose—*

Kevin Hollinrake: The right hon. Lady can intervene again if she wants further clarification.

Dame Margaret Hodge: If someone has some ownership in the securities market—I am not a financial expert, so I do not know whether I am understanding this right—and one took action on the assets, that would have an impact beyond the individual. Is that what we are being told?

Kevin Hollinrake: No, that is not what the right hon. Lady is being told. If someone has ownership, they have an asset, and therefore if that asset is frozen they are a designated person. It is just that the instruments themselves can affect the broad category of people who may or may not own assets. What we are trying to do is target people who actually own the assets.

Dame Margaret Hodge: I am very grateful. This is really to understand it. If somebody is sanctioned, are they the sort of individual we would want to be a director of a company?

Kevin Hollinrake: It is not a person who is sanctioned. What we are trying to say is that everybody who is subject to an asset freeze is a designated person—exactly the kind of person the right hon. Lady would want to see sanctioned. Rather than getting into a to-and-fro debate, perhaps we can write to her and explain the situation in layman's terms.

Dame Margaret Hodge: Yes, please.

Kevin Hollinrake: Furthermore, the Foreign, Commonwealth and Development Office does not currently designate people in relation to non-asset freeze financial sanctions. Although that may change in the future, a directorship ban may not necessarily be the most appropriate measure to impose on those designated for non-asset freeze financial sanctions.

Stephen Kinnock: On the point about the FCDO not sanctioning anything apart from asset freezes, does it not impose travel bans? Is a travel ban not a non-asset freeze type of sanction?

Kevin Hollinrake: Yes, that is right. What we are focusing on in the Bill is people who are subject to asset freezes, not travel bans. Hon. Members can argue that other people should be banned from being the director of a company, but we do not think this is the appropriate place to make that restriction.

Stephen Kinnock: Are the Government saying that if somebody has been sanctioned and given a travel ban but not an asset freeze, they are still a fit and proper person to be a director of a British company?

Kevin Hollinrake: The point is that they may be or they may not be. Putting a broad ban in the Bill just because somebody is subject to a travel ban is not the appropriate way to do it, in terms of whether they are a fit and proper person to run a company.

Stephen Kinnock: Are the Government seriously arguing that somebody who has been sanctioned by the FCDO and given a travel ban but not an asset freeze is still a fit and proper person to be a GB director? If the Minister is saying that the Bill is not the proper place to deal with that issue, where in our legislative framework will it be made clear that somebody who has a travel ban under FCDO sanctions is not a fit and proper person to be director of a British company?

Kevin Hollinrake: What we are talking about here is financial sanctions. These matters relate to companies and financial sanctions, not to travel sanctions.

Let me explain these points further. Not automatically imposing these measures on potential future scenarios will give the Foreign, Commonwealth and Development Office the flexibility it needs to impose the most appropriate and meaningful conditions on people designated for financial sanctions beyond asset freezes. Without these amendments, director disqualification measures introduced by the Bill would automatically apply to anyone against whom the designation power under section 9 of SAMLA 2018 is utilised—for example, transport or immigration sanctions, or any future measures that His Majesty's Government choose to design. Although those are extremely serious matters, such sanctions ought not by necessity impact on the person's ability to act as a company director. Furthermore, should there be a future need to extend director disqualification measures to people subject to those broader sanctions, that can be done via future legislation as and when the need arises.

Dame Margaret Hodge: I am genuinely sorry to interrupt, and I am looking at the Minister for Security as well. It seems to me that if we consider the behaviour that somebody has done to be so bad that we want to sanction them in whatever way—through a travel ban, asset freeze or other mechanism—surely in those conditions we do not think they are a fit and proper person to start a business? I cannot see the logic of this; I cannot see where the pressure is coming from to have a distinction between the two, and why we should want it. Why are we putting this down? Why should somebody who has been guilty of a human rights abuse, who may not have

[Dame Margaret Hodge]

an asset that we can sanction, still need to be defined as somebody who is not a fit and proper person to set up a company here? We do not want them to do that, do we?

Kevin Hollinrake: I think the best way forward on that is for myself and the Minister for Security to have a conversation. We can set out some of the reasons why that is the case in more detail in writing, as I promised to do earlier. We can then have a further discussion from there.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): When the Minister writes to my right hon. Friend the Member for Barking—which I am sure will be copied to all members of the Committee—it would be helpful to understand who would have been in scope in the original drafting, what specifically changed and who would be out of scope in the revised drafting. It would be clearer for us to know whether it has narrowed correctly, whether it is a tightening—and we should be happy with it—or whether, inadvertently, in dealing with one matter it has excluded others who might be useful to draw into the scope of the provision.

Kevin Hollinrake: That is perfectly reasonable. I tried to set out those kinds of example earlier, so I am very happy to clarify that in a letter to both the hon. Lady and the right hon. Member for Barking. Our position is that somebody might be subject to a travel ban for a number of reasons, and that does not necessarily exclude them from being a fit and proper person to run a company. Now, Members may think of some reasons why that individual should not be a fit and proper person, but I will set out why that person may still be fit and proper, and then we can all either agree, disagree or find a way of dealing with it.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It seems that if somebody is subject to a travel ban, they will fail pretty much every "know your customer" rule for every financial institution in the country. Indeed, we have set out regulations precisely to ensure that there are those tripwires. How will a company director be able to fulfil their duties? If the Minister cannot answer now, perhaps he can set that out in the correspondence to follow.

Kevin Hollinrake: That is exactly what I have already agreed to do. We will move on from that point, but, briefly, there will be instances where that person is not necessarily described as unfit or not proper to run a company, but we will set that out.

Amendment 83, tabled by the right hon. Member for Barking, introduces enhanced data sharing provisions to enable Companies House to more proactively identify and exchange information regarding suspicious activity with partners, including with law enforcement agencies. That is in addition to existing information sharing gateways and arrangements.

The Government believe it is better and more flexible to allow relevant operational agencies to formulate their own preferred approach to information exchange, rather than to define it inflexibly in primary legislation—*[Interruption.]* The right hon Member for Barking looks at me quizzically. I think she has picked up on one particular situation where she wants Companies House to act in a certain way, but she must agree that we could pick up myriad different situations where we might want Companies House to do something if we sat down and made a list. I am sure she does not want to get into the micromanagement of what Companies House should do in every circumstance. There will be millions of different things we expect Companies House to do. We prefer to give Companies House the objective of promoting the integrity of the registers and then hold it to account through the objectives and the provisions of the Bill. Specifying every single condition that we expect Companies House to operate in a certain situation is the wrong thing to do.

11.45 am

Liam Byrne: The last Bill Committee I had the pleasure of serving on was for the Data Protection Act 2018, which implements the general data protection regulation and prescribes all manner of protections for data privacy. This is our worry. When the new duty set out by the Minister for Companies House clashes with GDPR legislation, how do we resolve those clashes of principles to allow Companies House to share the data they need to share with the people they need to share it with in order to pinpoint the bad guys?

Kevin Hollinrake: That is a fair point and it is covered in the Bill, which seeks to make it easier for Companies House to share information proactively with other organisations or, indeed, commercial organisations and vice versa. Here, we are talking about specifying the exact circumstances in which that should happen, which we think is the wrong approach.

I now turn to amendment 93, which seeks to expand the criteria for disqualifying individuals from being company directors to include people suspected of facilitating evasion of UK sanctions by sanctioned individuals, in addition to the sanctioned individuals themselves. Any person enabling or facilitating the evasion of certain sanctions would already be committing an offence, for example, under regulation 19 of the Russia (Sanctions) (EU Exit) Regulations 2019. The maximum penalty on indictment is seven years in prison or a fine. Those are already dissuasive measures to ensure compliance with sanctions.

It is not appropriate and proportionate to apply director disqualification and offences to an individual who is only suspected of facilitating the evasion of sanctions. It is not clear what would constitute such suspicion and at what point a person would be prohibited to act. That could mean exposing an individual to criminal liability in circumstances reliant on suspicion alone, which I am sure the right hon. Member for Barking would not want to see. The uncertainty of what would constitute the criminal offence and potential interference with presumption of innocence has implications for the rule of law. I therefore ask hon. Members not to press their amendment.

I will now speak to clause 33. New section 11A of the Company Directors Disqualification Act 1986, introduced by the Bill, prohibits individuals subject to relevant financial sanctions, such as asset freezes, from acting as directors of companies. The clause limits the scope that

prohibition by disapplying it for building societies, incorporated friendly societies, NHS foundation trusts, registered societies, charitable incorporated organisations, further education bodies and protected cell companies. The Secretary of State may, by regulations, repeal any of the subsections in the section, therefore applying the prohibition on individuals subject to an asset freeze from acting as directors in any of the organisation types in the clause. That allows the Secretary of State to apply those measures only to company directors in line with the policy focus of the measures in the Bill, without that unnecessarily applying to other entities currently not in scope. That will take effect in England and Wales and Scotland. Clause 35 makes equivalent provision for Northern Ireland.

Stephen Kinnock: Clause 32 raises important questions about who we should and should not allow to hold positions of power and responsibility in UK companies.

Currently, under the 1986 Act, the circumstances in which a disqualification order can be imposed are strictly limited. For the most part, they involve individuals with a criminal record for breaches of company legislation involving UK companies. Clause 32 expands the disqualification criteria to provide an explicit prohibition on any sanctioned individual serving as a company director. That is entirely proper, but the Opposition's question is: why are the Government not going any further? They have considered who should be banned from serving as a company director, but the decision to add only those specifically designated under UK sanctions legislation feels like a missed opportunity.

We tabled amendment 93 to better understand and probe the Government's thinking and to explore how additional changes could contribute to the Bill's aims. The amendment is largely self-explanatory: it would add to the criteria those who aid and abet sanctioned individuals, or so-called "enablers" who help sanctioned individuals to evade our laws. The Minister will be aware of the army of lawyers, accountants and other so-called service providers who are in many ways doing Putin's dirty work in London. In our view, it is crucial that they are caught in the net that the Bill seeks to cast.

Kevin Hollinrake: I totally agree with the hon. Gentleman that we need to clamp down on the enablers of dirty money, but does he understand the point behind the provisions? There are serious penalties for somebody convicted of breaking sanctions—up to seven years in jail—but his amendment seeks to penalise somebody who is not convicted but merely suspected of facilitating that kind of activity. Does he understand why that is a difficultly for the Government?

Stephen Kinnock: I do understand that; the Minister makes a valid point. As I was saying, this is what one might describe as a probing amendment to try to get from him a sense of the proactive action the Government are going to take to go after those enablers.

Dame Margaret Hodge: The Minister is quite right to say that the powers are there, but I hope he agrees that a way to facilitate this would be to introduce a new criminal offence of failure to prevent economic crime. In that case, the enablers to whom my hon. Friend refers could be caught and rightly punished for their role in colluding or facilitating economic crime.

Stephen Kinnock: I thank my right hon. Friend for that extremely useful and eloquent intervention. That is absolutely the case, because the enablers are, by definition, experts in knowing how to play and game the system. We know it is going on, but they are notoriously difficult to track down. If we put the onus on industries to act proactively to prevent this sort of activity, that changes the game and makes prevention much more of a duty. I agree with the Minister that we cannot punish people if they are only suspected, but we can have a proactive ex ante approach. I would be grateful to hear his thoughts on that. In many ways, the amendment was designed to illicit a response from the Minister on what my right. hon Friend has just so rightly described.

The Minister has already pointed out that specifically designated individuals represent just the tip of the iceberg in terms of the scale of economic crime in the United Kingdom. There are any number of others who seek to exploit weaknesses in our laws and our ability to enforce them—for example, by creating opaque corporate structures to hide kleptocrats' assets. Adding to the criteria those who help to facilitate the evasion of sanctions by designated individuals—not necessarily as our amendment suggests, but through a more root-and-branch, proactive ex ante approach—is one way the Government could really improve the Bill. I would appreciate the Minister's thoughts on that. Restrictions on company directorships, as envisaged by amendment 93, should go much further.

Clause 33 extends the provisions of clause 32 to sectors other than companies—for example, building societies—and clauses 34 and 35 extend the same provisions to Northern Ireland. We support those clauses and, of course, amendment 83, which was tabled by my right hon. Friend the Member for Barking.

At various points in recent years Ministers have outlined a number of specific proposals, which now appear to have fallen by the wayside. It seems reasonable to expect that all companies should have at least one director who is an actual human being. We do not have to be experts to intuit how easy it is to abuse the existing system, which allows a company to name another company as its director provided that at least one human being is on its board. In the Government's own words in a 2021 consultation paper:

> "Evidence suggests that the use of corporate directors can muddy the waters around ownership and provide a screen behind which to conduct illicit activity…More generally the opacity they create can weaken corporate governance by preventing individual accountability."

The Government even went so far as legislating in the Small Business, Enterprise and Employment Act 2015 to enable the Secretary of State to impose a ban on corporate directors. After more than seven years, however, regulations to implement that have yet to be published. In fact, clause 37—on which my hon. Friend the Member for Feltham and Heston will speak shortly—makes some changes to the relevant section of the 2015 Act. The apparent intent of the changes, which is to make it easier for corporate directors to be held to account for their action, is certainly welcome, but what is not clear to Opposition Members is why the Government have decided to amend the primary legislation—namely, the 2015 Act—when, as we understand it, the secondary legislation to implement the ban on corporate directorships under that Act has still to be introduced. Perhaps the Minister will shed some light on that.

[Stephen Kinnock]

Another glaring omission is the issue of nominee directorships. As long ago as 2013, the Government raised that as an issue that company law reform should deal with. Again, the Government's own words provide us with a useful summary of the problem:

"Where a company is being used to facilitate criminal activity, the individuals who really control the way that the company is run will likely want to avoid making this information public. They may use 'nominee directors' to do this. Nominee directors are individuals who go on the public record as the director of the company to be, effectively, a 'straw man' or 'front man' for the company. The beneficial owner 'stands behind' the nominee and controls the way that the company is run",

de facto. The failure to address that in legislation remains a cause for serious concern.

Kevin Hollinrake: I am not sure I understand the hon. Gentleman's point. Irrespective of who the directors are, if people of significant control are exerting such influence, they will have to be named and have their ID verified under the Bill.

Stephen Kinnock: My understanding is that the regulations under the 2015 Act have not yet been put in place. Our question is: why are the Government not implementing those regulations but instead seeking to introduce the provisions in the Bill? That is simply a point for clarification and explanation. We welcome the fact that ID verification is provided for, but we are trying to get to the bottom of who a nominee director is and who actually controls a company. It would be useful to understand what happened between 2015 and 2022 to prevent the implementation of the regulations.

Kevin Hollinrake: Two separate things are going on. The Bill enables regulations to ban corporate directorships unless the corporation itself has all its directors named and they are all actual persons and ID-verified. It will do exactly that. The other point that I think the hon. Gentleman is talking about is people who sit behind companies and influence them but might not be named in those companies. If people do that, they are persons of significant control; under the definitions in the Bill, someone does not have to own 25% of the shares of a company to be a person of significant control, but they have to be named and ID-verified.

12 noon

Dame Margaret Hodge *rose—*

Stephen Kinnock: I will stand up and then allow my right hon. Friend to intervene.

Dame Margaret Hodge: As I understand it, if the owner of a company is an opaque company in the British Virgin Islands or another one of our tax havens, the ability to get behind that and see the person of significant control is pretty nigh impossible, so there is still a mechanism there. People could intentionally set up a company in the UK that is totally owned by a company established in the BVI. That information is not currently on the public register, although we are anxiously waiting for it to be so in 2023. There is no way of getting the persons of significant control verified, because it is outside our control.

Stephen Kinnock: I will now stand up and allow the Minister to intervene on me.

Kevin Hollinrake: There are two separate things going on here: ownership and directors. We were talking about directors, and the right hon. Lady is now talking about ownership, which is a slightly different thing, but we will talk later about ownership and how that information has to be made public under this legislation.

Stephen Kinnock: I thank the Minister; I think he has just provided clarification that he is confident that there is now a ban on the use of nominee directors as a front to obscure true beneficial ownership. We are grateful for that absolute reassurance. There was perhaps a misunderstanding on our side of some of the technicalities in the Bill that I am seeking to probe, so I am grateful to the Minister for that clarification.

It is worth noting that the World Bank published a report just a few months ago that explained how, under current UK law, nominee directors of UK companies can neglect their duties by failing to submit accounts and certify companies as dormant, even though tens of millions of pounds are passing through those accounts. A crucial point is that the impunity of delinquent nominee directors is especially pronounced if such nominees are not UK residents. On the rare occasions that they are questioned, such directors tend to make the legally false argument that because they are only nominees they have no responsibility to know anything about the company, let alone control its actions.

The lack of progress on this issue—certainly until the Bill's introduction—has raised concerns with us. Again, perhaps the Minister will say a little more about the Government's thinking. What does he think has been the impact of not implementing the regulations from the 2015 Act? Can he reassure us with absolute confidence that the issue of delinquent nominee directors will be eradicated by the passing of the Bill?

Alison Thewliss (Glasgow Central) (SNP): The hon. Gentleman is making a really important point about nominee directors. Is he aware of a "File on 4" programme —I believe it was aired last year—about nominee directors being recruited via Facebook groups and paid to take on that role? Is he concerned that it may still be possible to do that? Does the Bill need to do more to clamp down on the recruitment of nominee directors who get some money for taking on that role?

Stephen Kinnock: The hon. Lady raises an extremely important point and illustrates the absurdity of the situation we have got into. There seems to be a "wild west" approach to running corporate affairs in the UK and it is simply not acceptable. I thank her for that intervention and reiterate my hope that the Minister can give us an absolute reassurance that the issue of nominee directorships will be dealt with firmly and clearly in the Bill, without any loopholes. I also hope he will share any other thoughts he may have on the matter.

Liam Byrne: It is a pleasure to serve under your chairmanship, Ms Elliott. I am sorry that I have not checked the sartorial guidance for the Committee, but I assume it is okay for me to speak without a jacket on. I defer to the Chair if she wants me to clothe myself more adequately.

The Chair: It is very warm in here.

Liam Byrne: The Minister probably did not intend to set hares running, but he certainly has with his suggestions this morning. I know he will be alive to the Foreign Affairs Committee report on illicit finance that was published under the chairmanship of the right hon. and gallant Member for Tonbridge and Malling (Tom Tugendhat), who is now the Minister for Security, but I wish to share some of its headlines to underline a point that was wholly missing from the Minister's presentation.

Let us start with the really bad news. First, the Select Committee concluded that

"assets laundered through the UK are financing President Putin's war in Ukraine."

Secondly, the report said:

"The Government's unwillingness to bring forward legislation to stem the flow of dirty money is likely to have contributed to the belief in Russia that the UK is a safe haven for corrupt wealth."

It is very welcome that the Government introduced sanctions and have brought forward this Bill, but I am afraid the Foreign Affairs Committee came to the conclusion that our sanctions regime was "underprepared and under-resourced." We on the Select Committee found that there was not the capacity in the FCDO to match the speed and power of the sanctions regime brought into force by our American colleagues and, indeed, the EU. That is why the House was treated to the spectacle of a piece of enabling legislation that allowed us simply to copy and paste the sanctions regime from other countries into UK law.

There is a serious worry that the FCDO is not equipped to drive through the requisite disqualification of directors at the speed at which it should if it takes decisions on sanctions. I hear what the Minister says about creating some—I guess he would say—safeguards against the automatic suspension of directors, but in the absence of such a regime there is a real concern about an enforcement gap, because the FCDO sanctions and compliance team simply does not have the capacity to work things through with Companies House to ensure that the consequentials are followed through and that directors are disqualified when it is appropriate.

Among the measures that we in the House have previously invented are some of the provisions that I took through in the UK Borders Act 2007. We basically wrote into law the automatic consideration of sanctions such as the suspension of directorships. Many Opposition Members would be an awful lot more confident that bad people would be disqualified from directorships if they were sanctioned if we had some kind of legislative provision that created a duty, and therefore a burden, on Ministers and their officials to automatically consider people for the suspension of their directorships if a sanction of any description was imposed upon them.

This Committee is a chance for us to air different points of view about how we ensure that, as the Minister wants, London is a world capital of clean trade. I put this case before him so that he can reflect on it and perhaps come back to the Committee with further thoughts.

Dame Margaret Hodge: It is a pleasure to serve under your chairship, Ms Elliott.

I rise to speak to amendment 83. I did not quite understand the Minister's attack on or dismissal of it on the basis that it was somehow an attempt to provide a detailed way for authorities to act. That is way beyond what we are attempting to do; all we want to do is make sure the authorities are aware. The Minister and I know, from working in this policy area for a long, long time, how poor all the enforcement agencies are at sharing information. When whistleblowers and others provide information about wrongdoing, too often that falls between the various enforcement agencies, gets lost and nothing ever gets done. We are not here to tell those agencies how to carry out their work, but to ensure that there is better communication.

The amendment addresses some of the issues my right hon. Friend the Member for Birmingham, Hodge Hill just raised. It tries to strengthen the sanctions regime against individuals and to stop those individuals moving their assets before they get sanctioned. Under the FCDO, the sanctions process inevitably takes a long time and people know they are about to be on the sanctions list, so they have time to rearrange their affairs so their assets cannot be frozen.

All the amendment would do—it is very simple—is put a duty on Companies House to tell the enforcement authority, whether that is the Foreign, Commonwealth and Development Office, the Office of Financial Sanctions Implementation, the National Crime Agency or whoever, about any changes that may have occurred in the accounts held by Companies House of individuals who have been sanctioned and whose assets have been frozen in the three months prior to those sanctions being put in place. That is crucial, but why?

In July 2022, OFSI and other UK Government agencies, together with the Joint Money Laundering Intelligence Taskforce, issued a red alert, which I hope the Minister has had a chance to look at. His colleague, the Minister for Security, the right hon. Member for Tonbridge and Malling (Tom Tugendhat), will certainly have done that. It sets out the evasion tactics that individuals use and that enablers, whom my hon. Friend the Member for Aberavon mentioned, take to support that evasion. The action that designated individuals take, supported by their advisers, includes the transfer of assets, such as shareholdings, to trusted proxies, such as relatives or friends. To quote the red alert, they will

"sell or transfer assets at a loss in order to realise their value before sanctions take effect"

and they will

"divest investments to ensure ownership stakes are below the 50% threshold"

needed for sanctions.

There are numerous other examples—the red alert includes a list of about 15 such examples—of ways that people avoid sanctions and avoid their assets being taken. The individuals may seem to have got rid of their assets, but they will retain control. They will have simply hidden their control and the form that that control takes, but in reality they will still have control. In some instances, assets have been transferred or directed to jurisdictions where sanctions are not in place, such as China, Brazil, India or the United Arab Emirates, or have been converted into cryptoassets, which we will come to later in our discussions about the Bill.

[Dame Margaret Hodge]

I came upon such tactics in the case of Usmanov, as we have discussed before, who dodged the sanctions, particularly in relation to his Mayfair mansion—I cannot remember how many millions that is worth. The shares in his London property firm were transferred to his Russian business empire on 21 February, less than a fortnight before he was sanctioned. The transfer involved property owned by Klaret Services UK Limited being sold to Russia's largest iron ore company, Metalloinvest, in which Usmanov has a 49% share. That is just below the 50% threshold, although it is in Russia. That transfer is legal—he was able to act legally and within our law—and he was able to do it because we were so slow to sanction.

The sanctions against Usmanov did not cover his companies, so when he transferred the Mayfair property to a company, a different mechanism would have had to be adopted to capture its owner. As he had a 49% share in that company, it would have been difficult to pursue that. Both the shareholding in the company and the transfer mattered. Under our amendment, Usmanov would not have got rid of the property. Companies House would have had to give the enforcement agencies information about the transactions that had been undertaken in the three months prior to the sanctions, and those agencies could have taken action on it.

12.15 pm

The seriousness with which the authorities take this issue was demonstrated in July, when the National Crime Agency arrested 10 or 12 individuals—my research is a bit unclear—suspected of enabling corrupt elites. My understanding is that they were accountants, company service providers, lawyers and, indeed, auctioneers—a lot of those who are sanctioned undertake another little wheeze to secure money legally: they loan high-value artwork for fees far in excess of its value. I say again to the Minister that a failure to prevent offence might have prevented such activity.

The difficulties in the current regime are demonstrated by the case of Petr Aven, who my right hon. Friend the Member for Birmingham, Hodge Hill has mentioned. Aven—a Russian billionaire worth £5.3 billion, including a £300 million art collection—was sanctioned by the NCA. However, the NCA did not know that OFSI had come to an agreement with Aven that he could use part of his assets to meet his so-called living standards. The manner in which he is accustomed to existing means that, to fund his daily life, he is getting something in the region of £600,000 a year cash from the assets that are supposed to be frozen. There is real fear within the NCA that he will get through most of the frozen assets over time, leaving us with little to take away from him.

The amendment would specifically target the sanctions-evasion tactics highlighted by OFSI, such as changing beneficial ownership or corporate structure prior to designation, or changes to ownership of the corporate holding. It would make information sharing between Companies House and enforcement agencies automatic—it would not tell them how to share that information, just that they should—and I hope the Minister supports that. It would place an obligation on the registrar of Companies House to share with the NCA or other bodies any changes relating to any companies on the register.

I hope that the Minister has listened to my argument, because the amendment is a genuine attempt to facilitate the work of the enforcement agencies by helping them to act more swiftly and to be more effective in pursuing sanctions.

Kevin Hollinrake: I always listen to the right hon. Lady very carefully, so she can be sure that I have been listening. I am keen to tie up—as the shadow Minister, the hon. Member for Feltham and Heston, put it—any loopholes that we identify in the legislation. That is one of the purposes of Committee stage.

Broadly, I think the Committee and the wider House would accept that our sanctions regime, and the supervision regime at Companies House, are not fit for purpose today—that is why we are legislating. Clearly, the actions taken by Russia in recent months have further highlighted the work we need to do and the reform we need to put in place. The comments are welcome, and I think we are all trying to get to the same end point; we just want to make sure people do not suffer unintended consequences in the process.

I think the right hon. Lady said that Companies House is very poor at sharing information. That is probably a little unfair. Currently, it is not there to share information, other than by putting things on a public register for people to seek out; that has been its role in the past. Today, it is a register—we might call it a dumb register—and that is what we are seeking to change. We are seeking to give the registrar responsibility for promoting the integrity of the registers so that people can rely on the information in them and, as it says in the registrar's objectives, to minimise unlawful activities and the facilitation of unlawful activities.

Dame Margaret Hodge: Obviously, Companies House has not had to do this to date; it has just been a library of dud data, really. What I was drawing to the Minister's attention—I am sure he agrees with this—is that all the enforcement agencies working in this territory are poor at sharing information. That is why the stuff we get from whistleblowers so often falls through the middle somewhere and does not get tackled. That is why we should put a duty on the agencies to share information; we would not tell them how to do it, but just say, "This is really important if we are to bear down on wrongdoing."

Kevin Hollinrake: I am still not sure I agree. Of course there are elements of our enforcement agencies that we are all frustrated by at times, but to my mind nobody goes to work to do a bad job. People are doing their best, often in very difficult circumstances. We all agree that we need to hold our enforcement agencies to account and properly resource them. What we are trying to do is provide them with more powers and ability, and then hold them to account for the use of those powers.

Liam Byrne: The Minister is being characteristically generous. As he reflects on the huge wisdom of the amendments tabled by my right hon. Friend the Member for Barking and perhaps returns to the Committee with some of his own, could he share with us how many of the 1,200 individuals and 120 businesses that have been sanctioned since Russia's invasion of Ukraine have had directorships suspended?

Kevin Hollinrake: I do not know the answer to that question. When the Bill has received Royal Assent, it will facilitate exactly that process. At the moment, Companies House does not have the powers we would like it to have to bring that about. That is exactly what we are debating.

On amendment 83, I think the right hon. Member for Barking implies that Companies House knows of the changes with a company on an ongoing, dynamic basis. That is not how things work. Companies House does not have access to information until a company files an annual return. Companies do not provide information to Companies House on a daily or even monthly basis. That is not how it works.

Dame Margaret Hodge: But under the legislation, companies will have to provide information on changes of directorships and so on within 28 days, we hope—we had this argument yesterday—so Companies House will have that. I am not expecting it to go through 4 million companies, but there must be a way that the information can be highlighted by the IT system and, if we know a director is somebody who has been sanctioned, that information can be shared. Under the legislation, if a company has changed a directorship, as Usmanov did, it will have to provide that information within 28 days or whatever, and surely that will be there to share.

Kevin Hollinrake: A change of directorship, yes, but I do not think that is the situation the right hon. Lady was describing. She was talking about a movement of assets, as I understand it. I do not know the detail of the case she is talking about—*[Interruption.]* May I finish? If she is trying to prevent a person from moving assets around on the basis that Companies House needs to know about that as it is happening, that situation cannot be delivered. Companies can move assets around without asking the permission of Companies House or notifying it, so her amendment does not serve any purpose in that regard.

The right hon. Lady is absolutely right that any information that Companies House is made aware of and deems to be pointing to some kind of risk should be shared with the relevant agencies. We all agree with that point, and the Bill allows Companies House to do that for the first time. That is what we are trying to facilitate, but directing it to act in a certain way on a certain piece of information will lead us down a million rabbit holes, and we do not have the time or the ability to implement that through the Bill. We have to give it the powers and then let it get on with it while holding it to account against those broader objectives.

Alison Thewliss: My reading of the amendment is that it relates to a person changing any details relating to any company in the register in the three months prior. One of the red flags that Graham Barrow raised when he gave evidence was companies that switch their name backwards and forwards multiple times within a short space of time. Surely that would be a useful red flag for Companies House to report on, and the amendment would empower it to do that.

Kevin Hollinrake: That situation would be covered under the Bill because company naming is part of it. That is a different thing from what the right hon. Member for Barking was describing. She was taking about the movement of assets, and Companies House would not have access to that information on a dynamic basis. It clearly would have information on a name or director change, and it can act as it deems appropriate, in terms of notifying authorities or making further enquiries about what the company is doing.

Seema Malhotra: I am grateful to the Minister for giving way. I feel that we have allowed this conversation to get a bit more complicated than it needs to be on one specific point in relation to amendment 83, and I think the Minister has made it slightly more complicated too.

I understand that the Minister may be wondering whether a huge scope of things have happened in the three months prior to a person becoming a designated person. Does he agree that proposed new section 11B(2) could be tighter so that where it says, "If the person changes", it specifies changes to owners, directors or other information relating to the company on the register in the three months prior to the person becoming a designated person? There should be a way, through the design of the computer systems, which is being undertaken as part of the transformation in Companies House, for the registrar to trigger an automatic alert when somebody becomes a designated person to inform the Office of Financial Sanctions Implementation and the National Crime Agency that something had happened on the record in the previous three months. That would therefore not require a huge amount of resource and labour, but there would be a useful report and trigger if the Bill required the registrar to do that.

Kevin Hollinrake: I do not disagree with that, but my point was not that it would be too much work for the registrar; I never said that at all. My point was that may well be that the Companies House registrar looks at the amendment—she may be listening to this debate—thinks, "It's a really good idea to do that," and builds that into her systems. As legislators, we could direct Companies House to do a million things, but surely we should give it the power to share this information in a way that provides the most appropriate risk alert processes. We should let it get on with it while holding it to account for the broader objectives. We should not micromanage Companies House.

Seema Malhotra: I thank the Minister for giving way. I do not think this is a case of micromanagement, and nor are we asking for hundreds of things. We are making a specific request, based on specific research. I think an automatic alert could be triggered, and perhaps the Minister—

Stephen Kinnock: Will my hon. Friend give way just on that point?

Kevin Hollinrake: The hon. Lady is intervening on me.

Stephen Kinnock: Sorry. Good point, well made.

Seema Malhotra: I will just finish my point. Should the registrar be watching this debate and decide that an automatic alert is a good idea, does the Minister agree that the power of information sharing would enable the registrar to consult the Office of Financial Sanctions Implementation and the National Crime Agency should a relevant change have occurred in the previous three months?

12.30 pm

Kevin Hollinrake: As I have already said, such information-sharing is exactly what the Bill facilitates. It may well be that Companies House decides that that is exactly the right trigger to share information with the OFSI. Our view is that we should not direct Companies House in that level of detail as to how the registrar should perform her wider duty. We will continue to disagree on that point if the hon. Lady presses her amendment.

Stephen Kinnock: I thank the Minister for allowing me to intervene where I should have done in the first place. On the quantum that we are considering, as my right hon. Friend the Member for Birmingham, Hodge Hill has just said, 1,200 individuals and 120 businesses have been sanctioned since Putin's illegal invasion of Ukraine. We are not talking about a huge number. Perhaps the terms of the amendment tabled by my right hon. Friend the Member for Barking could be more tightly drawn to make it clear that it is not about every movement of assets and everything a company has done, but simply designed to ensure that if there was a change of director or change of address, the registrar should share that information with the other relevant agencies. The quantum is quite small, so would the Minister consider that proposal?

Kevin Hollinrake: I think we need to move on, and I think the hon. Gentleman is missing the point as well. This is not about my deciding whether the proposal is right or wrong, or whether Companies House has or has not got the resources. For me, it should have the resources that it needs. However, it is for the organisation itself to determine the best way to alert other authorities to the risk. That is the principle at issue here, and it is one to which I will strongly adhere.

The argument about enablers has been well made, and we have referred to corporate criminal liability and the failure to prevent that. As the Committee is aware, I have been a key advocate in introducing such liability for fraud and other offences. Members may have noted the details of a case this morning, in which the current offence of failing to prevent bribery was a key element in the case against Glencore, which has pleaded guilty to that offence. The Serious Fraud Office launched a successful prosecution against Glencore and, although the number of times it has proceeded against a company is far too few, that prosecution shows that the current legislation can be effective. I am keen to discuss that further in our proceedings.

On travel bans and securities, Committee members might find it useful to sit down with officials to discuss those measures, so that they then understand why those things might not mean that a person is not a fit and proper individual to be a director of a company. I would be happy to extend that opportunity to members of the Committee.

The hon. Member for Glasgow Central spoke about nominee directors and associated abuses. Under the terms of the Bill, any director, nominee or otherwise, who acts outside the terms of the legislation and is subject to the control of another undisclosed person could be put in jail for two years. That is exactly what we are seeking to do and to clamp down on such inappropriate use of companies.

In terms of what the hon. Member for Birmingham, Hodge Hill said—is it right hon. or hon?

Liam Byrne: Right. hon, I am afraid.

Kevin Hollinrake: Quite right, too; the right hon. Gentleman was Chief Secretary to the Treasury—I will go no further. The Foreign and Commonwealth Office is not responsible for the Office of Financial Sanctions Implementation—that is a function of His Majesty's Treasury—which determines how the sanctions regime works once people are sanctioned. The OFSI ensures that the regime works effectively. It is fair to say that when that organisation was established fairly recently, it was not ready for the amount of work it had to do. It has been scaled up to make it a more effective organisation, which has been discussed in the context of resources generally.

Liam Byrne: Let me give the Minister a bit of feedback from my time as Chief Secretary to the Treasury. If a spending Minister comes before the Chief Secretary to say: "I'm really sorry, but we have a legal duty to do this", it is an awful lot easier for them to win the case for the resource that they need than when they do not have the weight of that legal duty on their shoulders. Therefore, automatic consideration of a sanctioned individual for suspension of a directorship is a good thing to enshrine in a legal duty. I am trying to be helpful to the Minister, because I want him to be able to win arguments with the Treasury for the resources that he needs to achieve the objectives we both share.

Kevin Hollinrake: Yes, but we have to make careful use of our resources, otherwise there would be no money left.

We agree that sanctioned individuals should not be allowed to be directors of companies. That is what we are talking about, so there is no disagreement. Our disagreement is about how we share information between different agencies, and whether we should tell them how to do it, or they should do it themselves. We are parliamentarians; we are not experts in financial crime or how the financial system works. Wherever we can, we should leave it to the experts to determine the best way to share the information between agencies and—the important thing we are doing here—give them the powers to do that.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 7.

Division No. 3]

AYES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom

NOES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

Question accordingly agreed to.

Amendment 1 agreed to.

Amendment made: 2, in clause 32, page 22, line 18, leave out "designated person" and insert "person subject to relevant financial sanctions".—*(Kevin Hollinrake.)*

This amendment is consequential on Amendments 1 and 3.

Amendment proposed: 3, in clause 32, page 22, line 20, at end insert—

"'designated person' has the meaning given by section 9 of the Sanctions and Anti-Money Laundering Act 2018;

'person subject to relevant financial sanctions' means a person who is a designated person for the purposes of any provision of regulations under section 1 of the Sanctions and Anti-Money Laundering Act 2018 that imposes a prohibition or requirement for a purpose mentioned in section 3(1)(a) of that Act (asset-freezing)."—*(Kevin Hollinrake.)*

See Member's explanatory statement for Amendment 1.

Question put, That the amendment be made.

The Committee divided: Ayes 10, Noes 7.

Division No. 4]

AYES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom

NOES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

Question accordingly agreed to.

Amendment 3 agreed to.

The Chair: We now come to amendment 83, which has just been debated. Does Dame Margaret Hodge wish to move the amendment formally?

Dame Margaret Hodge: I just wish to tell the Committee that I will write to Companies House and see what response I get from the chief executive or director. Subject to that, at this stage, I will not move the amendment.

Clause 32, as amended, ordered to stand part of the Bill.

Clause 33 ordered to stand part of the Bill.

Clause 34

Disqualification of persons designated under sanctions legislation: Northern Ireland

Amendments made: 4, in clause 34, page 23, leave out lines 13 to 17 and insert—

'(1) This Article applies in relation to a person who has, at any time on or after the day on which section 34(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force, become a person subject to relevant financial sanctions and who remains so subject.'

This amendment and Amendment 6 would mean that a person who is subject to sanctions is disqualified under the NI directors disqualification legislation only if those sanctions relate to asset-freezing.

Amendment 5, in clause 34, page 23, line 23, leave out 'designated person' and insert 'person subject to relevant financial sanctions'.

This amendment is consequential on Amendments 4 and 6.

Amendment 6, in clause 34, page 23, line 23, at end insert—

'(4) In this Article —

"designated person" has the meaning given by section 9 of the Sanctions and Anti-Money Laundering Act 2018;

"person subject to relevant financial sanctions" means a person who is a designated person for the purposes of any provision of regulations under section 1 of the Sanctions and Anti-Money Laundering Act 2018 that imposes a prohibition or requirement for a purpose mentioned in section 3(1)(a) of that Act (asset-freezing).'—*(Kevin Hollinrake.)*

See Member's explanatory statement for Amendment 4.

Clause 34, as amended, ordered to stand part of the Bill.

Clause 35 ordered to stand part of the Bill.

Clause 36

Disqualified directors

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clauses 37 to 43 stand part.

New clause 35—*Person convicted under National Minimum Wage Act not to be appointed as director—*

'(1) The Company Directors Disqualification Act 1986 is amended as follows.

(2) After Clause 5A (Disqualification for certain convictions abroad) insert—

"5B Person convicted under National Minimum Wage Act not to be appointed as director

(1) A person may not be appointed a director of a company if the person is convicted of a criminal offence under section 31 of the National Minimum Wage Act 1998 on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force.

(2) It is an offence for such a person to act as director of a company or directly or indirectly to take part in or be concerned in the promotion, formation or management of a company, without the leave of the High Court.

(3) An appointment made in contravention of this section is void."'

This new clause would disqualify any individual convicted of an offence for a serious breach of the National Minimum Wage Act 1998, such as a deliberate refusal to pay National Minimum Wage, from serving as a company director.

Kevin Hollinrake: Before I turn to the new clause, I will set out the intentions and effect of the clauses in the group. As part of the reform of Companies House, it is necessary to update the provisions regarding company directors. Most crucial to that is the introduction of a prohibition on people acting as company directors when they have not had their identities verified and reported their directorships to Companies House. That is a critical part of improving the integrity of the companies register. Accordingly, it is appropriate to provide teeth to ensure compliance with those obligations. The Bill will also create grounds for director disqualification if the person fails to verify their identity.

[Kevin Hollinrake]

On new clause 35, all businesses, irrespective of their size or business sector, are responsible for paying their staff the correct minimum wage. The vast majority of responsible employers make sure they get it right. I assure the hon. Members for Aberavon and for Feltham and Heston that the Government take enforcing the minimum wage seriously, and we are clear that anyone who is entitled to be paid the minimum wage should receive it. We take robust enforcement action against employers who do not pay their staff correctly. Every area of regulation affecting businesses, whether it is employment practices or environmental impacts, has its own enforcement and penalty frameworks.

It is not entirely clear why we should single out breaches of the national minimum wage—important though it is—as being worthy of leading to disqualification. Nor does it immediately follow that someone who has breached their regulatory obligations in one of those areas should automatically be considered unfit to be a company director in the round. Having said that, I have some understanding when it comes to the new clause. There have been 16 people convicted under the National Minimum Wage Act 1998. I want to do some further research on that to see what has happened to those people and their director qualification or disqualification. That might inform debate more clearly.

I draw hon. Members' attention to the fact that the greater flexibility in the Bill over the use of Companies House fees will cover the company investigation teams at the Insolvency Service, allowing the Government the potential to expand their work and go after a greater proportion of rogue directors. I respectfully ask hon. Members not to press the new clause.

12.45 pm

I will take the provisions in the order in which they are written. Clause 36 terminates the director appointment of individuals who are subject to a disqualification order, are an undischarged bankrupt or subject to personal insolvency measures or asset freezing under UK or UN sanctions. The clause labels such individuals as disqualified under the directors disqualification legislation, and sets out that individuals who have become disqualified under the directors disqualification legislation cease to hold the office of a director.

Dame Margaret Hodge: This is a question of clarification: if a director is disqualified, can he or she still act as a shadow director?

Kevin Hollinrake: It depends on how the right hon. Lady defines a shadow director. If she is implying that they are a person of significant control influencing others, which I guess is what she means, I will point her to the definitions of a person of significant control. They are those who hold

"more than 25% of shares in the company…more than 25% of voting rights in the company…the right to appoint or remove the majority of the board of directors"

that might influence or control a company through other means. That means that the person is still covered under the legislation; if a person is exerting that control, they should be designated as a person of significant control and ID verified, as discussed previously. Any person who became disqualified before the clause comes into force and is disqualified at that time will also cease holding the office of director.

Clause 37 amends some yet to be commenced provisions of the Companies Act 2006 on when a corporate director can act and minimum age requirements for directors. The Small Business, Enterprise and Employment Act 2015 amended the 2006 Act to establish—as the hon. Member for Aberavon said—that company directors should, in future, be natural persons except where they have met specific requirements determined by regulations. We will bring forward those regulations following the enactment of the Bill to establish the exemptions to the general natural person director rule. After a transition period, companies must ensure that any corporate directors on their boards are compliant with the regulated exemption criteria. Where they fail to do so, those director appointments will be void once the transition period ends.

The clause makes it clear that should any non-compliant corporate director continue to act in the capacity of either a de facto or shadow director after the end of the transition period, they will be held liable for the consequences of their actions as they would be if they were a validly appointed director. The clause makes a similar clarification in respect of the principles that will apply in respect of an individual who does not meet minimum age requirements for a company director. In such instances, the appointment would also be void, but those who continue to purport to act as a director or operate in a shadow capacity will continue to be exposed to personal liability none the less.

Clause 38 repeals the power for the Secretary of State to require that companies with disqualified directors who have been given permission by the court to act as a director make a statement to the registrar confirming that permission. The power is no longer required, because the Bill introduces new requirements to provide statements about disqualification and permissions to act in sections 12, 12A, 167G and 790LA.

Clause 39 introduces a prohibition on an individual acting as a director unless their ID is verified or exempted from that requirement under the regulations. It establishes a duty on a company to ensure that unverified individuals do not act as directors unless they are exempted from the ID verification requirement. Failure to comply with the duty constitutes an offence committed by the company and every officer of the company who is in default.

Clause 40 will make it a criminal offence for a person to act as a director unless their appointment has been notified to the registrar. It will be a defence for a person to prove that they reasonably believed that the notice of their appointment had been given to the registrar. The actions taken by an unverified director, or a director whose appointment has not been reported to the registrar, will remain valid to ensure that third parties who have relied on the actions of an unverified director are not unfairly disadvantaged.

We want there to be consequences for not complying with ID verification obligations, and clauses 41 and 42 help us to achieve that. The clauses allow for the disqualification of individuals where they are persistently in default of the ID verification requirements for directors and people with significant control, or where they have been convicted by consequence of such contravention.

Clause 41 legislates in respect of Great Britain, with clause 42 legislating to create equivalent powers for Northern Ireland.

Finally, clause 43 makes amendments to section 246 of the Companies Act 2006 regarding addresses on public record. It is consequential to other amendments to no longer require companies to hold their own local registers of directors.

The Chair: Before I call Seema Malhotra, I remind the Front-Bench spokespeople that they need to indicate to the Chair that they want to speak.

Seema Malhotra: Thank you, Ms Elliott. It is a pleasure to serve under your chairship.

I will speak for the Opposition on clauses 36 to 43, and I will say a few words about our new clause 35. We welcome what the Minister said, and we do not propose to push the new clause to a vote today, but I want to put some of our comments on the record. It would be useful if the Minister could clarify when he might want to come back and continue the conversation, subject to being able to look at further data on those who have been convicted under the legislation.

As we have established, clause 36 inserts proposed new sections 159A and 169A into the Companies Act, so that those who are disqualified from being a director under UK law cannot be appointed as one. New section 169A also says that a person who has been appointed as a director ceases to be one if they are disqualified. The two new sections appear straightforward, but has the Minister considered whether the provisions could be extended to ban the appointment of directors who may have been disqualified outside the UK? The Government could pursue that by extending the definition of directors disqualification legislation in new section 159A(2) to cover the analogous disqualification regimes in such jurisdictions as the Secretary of State may designate in regulations. That would allow the UK Government to specify or choose countries that have disqualification regimes that we would be happy to rely on. It seems that it might be a useful consideration, and I would be grateful for the Minister's comments on that.

On clause 37, section 87 of the 2015 Act contains amendments that have not yet been brought into force. It requires all directors to be natural persons, and it contains provision for circumstances in which people under 16 can become directors. We support the clause, which would amend the provisions to ensure that persons remain responsible for their acts as directors—I think we have had a brief conversation on this—even though they are no longer legally considered to be directors. That is important, because the practical consequence of the clause is that if a person continues to act like a director, even if they have officially been removed from office, they can still be legally responsible for any breaches of the law that they commit as a director. That could be on wrongful trading or other matters. We welcome the clause. It is an important provision to ensure that shadow directors remain liable for contraventions of the Companies Act 2006. We recognise the need for clause 38 and support it.

Clause 39 introduces provisions that would provide that an individual cannot act as a director of a company unless their ID has been verified or they benefit from an exemption specified by the Secretary of State. In addition, it provides that breaching that would be a criminal offence for the director, the company and every other responsible officer, punishable by a fine. In practice, it would mean that once the clause comes into force, individuals should not take any actions on behalf of the company in their capacity as director until they verify their identity. We welcome and support the clause. We agree that that is a positive step in ensuring that directors are who they say they are. Hopefully, it will also mean that people will be less likely to commit or even attempt to commit economic crimes.

Questions remain on the implementation and enforcement of identity verification, some of which we have discussed previously. We recognise that there are ongoing concerns. Martin Swain of Companies House said that we are still in the "design phase" for ID verification. It is difficult to be clear on the implications of the legislation we are passing without having clarity over ID checks. When will they be operational? What can we expect to be in them? How quickly will we and the registrar expect them to be completed? Will the Minister confirm that they will be of the highest standards? Nick Van Benschoten of UK Finance said in his evidence to the Committee on verification standards that one of the key points is that they

"fall short of minimum industry standards."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 7, Q3.]

I am sure the Minister will want to ensure that ID verification will be of the highest standard.

I would like to press the Minister on the part of the clause that grants the Secretary of State the power to exempt certain directors from not acting until their identity has been verified. I am seeking clarity on why the measure is needed. Will it be for categories of people or individuals? Finally, will any use of the exemption be transparent and reported on? I think we have raised before the need to ensure there is sufficient clarity and accountability on the use of the powers.

Clause 40 makes it a criminal offence, punishable by a fine, for someone to act as a director unless their company has notified the registrar within 40 days. We welcome that, but I would like the Minister to clarify subsection (5), which allows a defence for a director who can prove they reasonably believed their company had been given notice of a director's appointment. In the interest of working with the Government on this, may I ask the Minister for assurances on what would constitute proof of reasonable belief in this instance? Would it be possible to provide an example of where an exemption from sanctions might be applied? The Minister may want to write to me.

We welcome clauses 41 and 42. I realise we may be coming to the end of the sitting, so I will speak to clause 43 in detail later.

Ordered, That the debate be now adjourned.—*(Scott Mann.)*

12.59 pm

Adjourned till this day at Two o'clock.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Eighth Sitting

Thursday 3 November 2022

(Afternoon)

CONTENTS

No proofs can be supplied. Corrections that Members suggest for the final version of the report should be clearly marked in a copy of the report—not telephoned—and must be received in the Editor's Room, House of Commons,

not later than

Monday 7 November 2022

The Committee consisted of the following Members:

Chairs: † Mr Laurence Robertson, Hannah Bardell, Julie Elliott, Sir Christopher Chope

† Anderson, Lee *(Ashfield)* (Con)
† Ansell, Caroline *(Eastbourne)* (Con)
† Byrne, Liam *(Birmingham, Hodge Hill)* (Lab)
† Crosbie, Virginia *(Ynys Môn)* (Con)
† Daly, James *(Bury North)* (Con)
† Hodge, Dame Margaret *(Barking)* (Lab)
† Hollinrake, Kevin *(Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy)*
† Hughes, Eddie *(Walsall North)* (Con)
† Hunt, Jane *(Loughborough)* (Con)
† Kinnock, Stephen *(Aberavon)* (Lab)
† Malhotra, Seema *(Feltham and Heston)* (Lab/Co-op)
† Mann, Scott *(Lord Commissioner of His Majesty's Treasury)*
† Morden, Jessica *(Newport East)* (Lab)
† Newlands, Gavin *(Paisley and Renfrewshire North)* (SNP)
† Stevenson, Jane *(Wolverhampton North East)* (Con)
† Thewliss, Alison *(Glasgow Central)* (SNP)
† Tugendhat, Tom *(Minister for Security)*

Kevin Maddison, Anne-Marie Griffiths, *Committee Clerks*

† **attended the Committee**

Public Bill Committee

Thursday 3 November 2022

(Afternoon)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 36

Disqualified directors

2 pm

Question (this day) again proposed, That the clause stand part of the Bill.

The Chair: I remind the Committee that with this we are discussing the following:

Clauses 37 to 43 stand part.

New clause 35—*Person convicted under National Minimum Wage Act not to be appointed as director—*

"(1) The Company Directors Disqualification Act 1986 is amended as follows.

(2) After Clause 5A (Disqualification for certain convictions abroad) insert—

'5B Person convicted under National Minimum Wage Act not to be appointed as director

(1) A person may not be appointed a director of a company if the person is convicted of a criminal offence under section 31 of the National Minimum Wage Act 1998 on or after the day on which section 32(2) of the Economic Crime and Corporate Transparency Act 2022 comes fully into force.

(2) It is an offence for such a person to act as director of a company or directly or indirectly to take part in or be concerned in the promotion, formation or management of a company, without the leave of the High Court.

(3) An appointment made in contravention of this section is void.'"

This new clause would disqualify any individual convicted of an offence for a serious breach of the National Minimum Wage Act 1998, such as a deliberate refusal to pay National Minimum Wage, from serving as a company director.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Mr Robertson. I will continue to speak to this group, finishing with a few remarks about clause 43 and our new clause 35.

We welcome clause 43 and recognise that it reflects new circumstances that arise from the Bill's abolition of local registers of directors, set out in clause 50. We have further questions on that, which we will deal with when we come to later clauses.

On new clause 35, let me put our argument on the record. I thank the Minister for his comments, which I hope suggest that we will move on in some form, perhaps with the data he comes back with. Will he update us on when he expects to come back to us, so that we can come to a conclusion, and perhaps on an alternative way to make progress on the matter, during the passage of the Bill?

The reason my hon. Friend the Member for Aberavon and I tabled new clause 35 is to include provision such that persons convicted under the National Minimum Wage Act 1998 cannot be appointed as company directors. There are real questions about whether we would want an employer who wilfully neglected or refused to pay the national minimum wage to a worker who qualified for it to be the director of a company after the Bill comes fully into force. The new clause would strengthen a lot of the measures in the Bill, because we are talking about people we hope to trust to undertake their responsibilities as a director.

The Bill introduces a substantial amount of regulation about who can and cannot serve as a company director as a result of criminal or potentially criminal practices, so this feels like the right place for consideration of such a measure. I will welcome the Minister's comments and I look forward to continuing to work with him as we make progress.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): It is a pleasure to speak with you in the Chair, Mr Robertson.

I am not quite clear when I will be able to get the information that we should have before we look at the matter in new clause 35. I think it is right to identify the scale and nature of the problem before we legislate, but I am certainly keen to do so, not least in my role as the person responsible for labour frameworks and markets.

I will respond to one or two of the comments of the hon. Member for Feltham and Heston. We already have power to ban directors disqualified overseas, under section 5A of the Company Directors Disqualification Act 1986. We can and have taken steps to disqualify directors who have been convicted of relevant foreign offences. On exemptions, I think we dealt with exemption from identity verification in a previous sitting. This will be set out in regulation, but that will probably include people who have already had their ID verified, for example.

The hon. Lady also asked about the defence of "reasonably believed" in clause 40. That would cover a situation where somebody had broken the rules but perhaps did not know that the rules had been broken. That would of course be subject to some kind of investigation, and the person could say, "It wasn't me who submitted the return. I am not guilty of an offence." It is a defence that somebody believed the information had been submitted correctly when actually it had not. I think that is a reasonable provision, which investigators would be able to take into account before taking forward a prosecution.

Question put and agreed to.

Clause 36 accordingly ordered to stand part of the Bill.

Clauses 37 to 42 ordered to stand part of the Bill.

Clause 43

Registrar's power to change a director's service address

Amendment made: 7, in clause 43, page 31, line 10, at end insert

"(but see subsection (4A)).

(4A) Subsection (4)—

(a) does not limit the service address that may be registered for the director under regulations under section 1097B (rectification of register), and

(b) ceases to apply in relation to the director if a new service address is registered for the director under those regulations.'"—*(Kevin Hollinrake.)*

Where a director's service address is moved to their residential address under section 246 of the Companies Act 2006, subsection (4) imposes restrictions on further changes. This amendment ensures those restrictions do not bite on further changes under new section 1097B (inserted by NC5).

Clause 43, as amended, ordered to stand part of the Bill.

Clause 44

REGISTER OF MEMBERS: NAME TO BE INCLUDED

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clauses 45 to 48 stand part.

That schedule 1 be the First schedule to the Bill.

Kevin Hollinrake: A core purpose of the companies register is to provide details of company ownership. Users of the register, such as those who use it to confirm basic information about a company or to carry out due diligence work, have reported some problems with the way company ownership data is recorded. These clauses introduce measures to increase the usefulness of the information held on the members of UK companies. Collectively, they will mean that users of the register have more certainty about who they are doing business with, building confidence in the integrity of the companies register and preventing bad actors from exploiting it.

Clause 44 amends sections 112, 113 and 115 of the Companies Act 2006, which concern the provision of information relating to the members of a company. The clause provides that in the case of an individual, the requirement to enter a name in the register of members and the index of members means entering the individual's forename and surname. In the future, entries will have to read "Joe Bloggs" and not "J. Bloggs". The clause is necessary because there is currently no definition of "name" for members in the 2006 Act or associated regulations.

Clause 44 also provides that in the case of an individual usually known by a title, the title may be entered in the register of members and the index of members instead of the individual's forename and surname. The 2006 Act currently allows directors to state their title instead of their forename and surname, or in addition to either or both of them, but it does not contain equivalent provision for members. The clause provides that if a person's name or title is entered in a company's register of members in a form that does not comply with the new requirements, that does not affect the person's becoming a member of the company. It may well be that that was not the fault of the member themselves.

The objective of the clause is to increase transparency rather than introduce a condition around name format into the concept of membership. If a company fails to comply with the requirements of section 113 and/or section 115 of the 2006 Act, an offence is committed by the company, and every officer in default, so non-compliance can be pursued.

Clause 45 inserts into the 2006 Act new section 113A, which will allow the Secretary of State to make regulations to change the information required to be entered in a company's register of members. Regulations could, for example, require all members to provide an address. Currently, the initial members, or subscribers, of a company are required to provide their name and address, but those who become members later are only required to provide their name.

As reforms are implemented to Companies House and the companies register, it is possible that further opportunities to improve information on shareholdings will be identified, on which the Government would want to act swiftly. For example, law enforcement may identify additional types of information that the registrar could require that would help in the prevention and detection of crime.

The power in clause 45 will align the position for members with that for directors and people with significant control, in respect of which there are already powers to amend the required information. Information provided in a company's register of members is provided to Companies House via the company's confirmation statement. This power will increase the usefulness of the information on the companies register.

Clause 46 amends section 125(1) of the Companies Act 2006, which gives the court the power to rectify the register. Without the clause, the court may order the rectification of the members register only in relation to names. The clause broadens the rectification power so that it is available in respect of any information on the members register. It means that a person aggrieved, any member of the company, or the company can apply to the court for rectification of the members register if the register does not contain necessary information, or if it contains unnecessary information. It is conceivable that information other than names may be included in a company's register of members in error.

Given that clause 45 gives the Secretary of State the power to make regulations that require additional information to be entered in a company's register of members, it is crucial that the rectification power is broadened. Information provided in a company's register of members is provided to Companies House via the company's confirmation statement. A wider power to rectify the members register will increase its integrity and, by extension, that of the company's register as a whole.

As well as introducing measures to increase the transparency of company ownership, the Bill will introduce measures to prevent the abuse of personal information held on the Companies House register. Proposed new section 120A of the Companies Act, inserted by clause 47, allows the Secretary of State to make regulations that empower the registrar to order a company to refrain from using or disclosing individual membership information, except in specified circumstances. Members of a company will then be able to apply to the registrar to request that the order be made to the company.

Clause 47 also amends sections 114 to 116 and 120 of the Companies Act, so that where a company is ordered not to use or disclose member information, other obligations that would otherwise require that information to be inspectable by the public are switched off. The clause also provides that if a company fails to comply with an order for the restriction of the use or disclosure of

[Kevin Hollinrake]

information, an offence is committed by the company and every officer of the company who is in default. Adding such an offence is proportionate given the serious risk that individuals who have applied for protection face.

Clause 48 amends the Companies Act to remove the option for private, non-traded companies to elect to keep information about their members solely on the central register maintained by the registrar. The effect will be to require private companies that previously chose to keep information only on the central register to maintain their own register of members. It will be the sole responsibility of the company to update and maintain its register of members. The register of members is separate from the register of companies, which is maintained by the registrar.

Clause 48 also inserts a new transitional provision in relation to the abolition of the option to elect to keep members registers at Companies House rather than locally, requiring companies to enter in their register of members all the information that would have been required had the election never been made. Such companies will then be required to provide any updates to the registrar about their members via the confirmation statement. The clause also makes various consequential amendments to other sections of the Companies Act, which are in schedule 1.

Clause 48 also clarifies that, while the provisions relating to the central register were in force, the information about the members of a company that elected to hold membership information on the central register is to be considered prima facie evidence about the members of the company. However, from the point that the central register is abolished by the Bill, the prima facie evidence about the members of a company can be found in the company's own register, held under section 113 of the Companies Act 2006.

2.15 pm

Seema Malhotra: I thank the Minister for his comprehensive walk through these clauses, which I am sure he wrote overnight. It was very helpful. I have a few questions, but I will start by speaking to clause 44, which amends the Companies Act 2006 so that for individuals entered in a register of members, commonly denoting shareholders, "name" refers to a forename and surname. I have made the point before that it is quite staggering that we have not had such specification of the information that should be required. We absolutely welcome this measure and the encouraging of greater transparency of company shareholders.

We support the clause, but it seems to be countered by moves that arguably encourage less transparency of shareholders. In particular, the withdrawal of the central register, with information held only by the company rather than centrally, will make it harder to have public access and knowledge of who shareholders are.

It is important for us to emphasise why transparency continues to be so important. Transparency International has noted that, until now, shareholder information has been extremely limited and difficult to access. That has been a core factor in the UK's unwanted reputation as a hub for dirty money and economic crime. The lack of any substantial rules and regulations around shareholder information reduces the reliability of the information published by Companies House and, in turn, of the totality of information about a company held by Companies House. We have tabled amendments to later clauses, but I wanted to make that broader point. While we talk separately about directors, officers and shareholders, in the end we are talking about entities working together as a whole, and wanting transparency about activity, and who is involved in it, as a whole.

Clause 45 concerns the power to amend required information. As the Minister outlined, the clause allows the Secretary of State to make regulations to specify changes to the information that must be entered in a company's register of members. This is an important clause, and I have a couple of questions for the Minister. First, is there any consideration of what information may be required? I think there was some suggestion about the addresses of company members. In the Minister's opinion, would the clause provide for a potential future decision by the Secretary of State to bring forward proposals to request identity verification and perhaps directors' IDs from shareholders with shares of less than 5%?

I wonder whether this should be among the requirements for transparency of shareholder information in the Bill, which specifies changes to information that must be entered. If there are measures that could be brought forward, should they not be in the Bill rather than in future regulations? Is it a case of simply saying, "We will go as far as we think is relevant now and leave the option open for additions later"? Where the Minister thinks there could be further measures later, it would be interesting to debate whether some of them could be brought forward.

The Minister clearly set out the arguments for clause 46, and we support the expansion of the court's powers.

Clause 47 relates to the register of members and the protection of information. As the Minister outlined, the clause would allow the Secretary of State to make regulations requiring a company to refrain from using or disclosing individual membership information except in specified circumstances. I was not fully clear who may make applications to the registrar not to use or disclose information. There may well be good reasons for such a request, but what individuals do the Government have in mind and in what circumstances could such a direction be made? Procedures in the future may result in less transparency, and for good reason, but it is important that we understand the reasons for that and that they are on public record as we consider the Bill.

It is possible that transparency is countered by the implementation of the Bill and the subsequent legislation for which it makes provision. That may reduce transparency by backdoor means, as it were, and reduce its scope to apply to those very individuals whom we may want to subject to such transparency. I am sure that the Minister understands why we want to probe that issue.

Clause 48 concerns the removal of the option to use the central register. Given all the measures relating to transparency and shareholder information, I am concerned about their total effect. The important principle running through the Bill is increased transparency in terms of publication and searchability, but the Bill also provides for private companies to exercise the option not to be on the central register. Perhaps I have not followed all

the detail relating to the disclosure of shareholder information, but after the Bill's implementation, I think there will be less publicly available shareholder information and not more. I look forward to the Minister's response to those concerns.

Kevin Hollinrake: I think I have noted all the points raised by the hon. Lady. She is absolutely right that, in future, the Secretary of State could, through regulations, elect for the collection of more information from shareholders or any other relevant parties. We must all acknowledge that we do not want to put undue burdens on people who are trying to go about their normal, legitimate, bona fide commercial business. We are trying to strike a balance to ensure that we get the information from those we need it from, who may be acting for nefarious purposes.

On the hon. Lady's point about the circumstances in which someone may want to remove details from the public register, that individual could be a celebrity, who would not want their address held publicly, or someone who fears domestic abuse. Those are the types of cases and circumstances that may arise. The information would still be held, just not in public. The law enforcement agencies would still have access to it, but the general public would not. When making such an application for removal, an individual would have to demonstrate evidence of risk, and could not simply say, "I want that information removing." The registrar can refer cases to law enforcement agencies if she is in any doubt about whether the application has been made for bona fide reasons. She can also revoke a removal, if she feels that she has been given false information. I think they are reasonable provisions, and that judgment will be exercised.

On updating the register, the hon. Lady has tabled amendment 104, which we will consider in the next group. Perhaps we will have a good debate about that then.

Question put and agreed to.

Clause 44 accordingly ordered to stand part of the Bill.

Clauses 45 to 48 ordered to stand part of the Bill.

Schedule 1 agreed to.

Clause 49

MEMBERSHIP INFORMATION: ONE-OFF STATEMENT

Seema Malhotra: I beg to move amendment 104, in clause 49, page 34, line 32, after "time" insert "and annually thereafter".

This amendment would require a confirmation statement with company membership information as set out in clause 49 subsection 2 to be submitted annually.

The clause requires a company to provide a full list of shareholders when the first confirmation statement is filed after clause 44(3) comes into force. As I said, the clause is a welcome step in increasing the transparency of shareholder ownership and information, which we support strongly. Nevertheless, as has been said, the provisions in the Bill on shareholder information could and should go further. That is the context in which we tabled the amendment.

The amendment would provide that the confirmation statement about the company membership under this clause is submitted not only on a one-off basis but annually. The principle of shareholder information being submitted is one we support fully. If the Government believe that should be a one-off, I would be grateful if the Minister could explain why it need not be annual.

As I have mentioned, opaque shareholder ownership is a significant barrier to ensuring transparency and tackling economic crime. An example that has been cited already is Savaro Ltd. In August 2020, tonnes of ammonium nitrate exploded in Beirut port, killing more than 200 and wounding thousands more. The reported owner of the chemicals was a UK-registered private limited company called Savaro Ltd. The data provided by Savaro Ltd gives an insight into the poor quality of shareholder information held at Companies House and how that hinders investigation. Transparency International highlighted how, to identify the shareholders, it had to go back to 2015 for documents that named Status Grand as the sole owner.

Instead of identifying shareholders annually, companies only have to say that no shareholders have changed. The information is hidden in PDF documents, so it is unnecessarily time-consuming to establish who held shares in an entity at a particular point in time. Savaro is a clear example of how annual shareholder data, which the amendment would provide for, could assist considerably in investigating even criminal activity in UK companies.

Let me pre-empt the Minister's pushing back on the amendment. One common argument against companies providing shareholder names annually is that it would prove too onerous a task for UK companies, but in answer to a written parliamentary question that I tabled his predecessor outlined that the average number of shareholders in UK companies in 2021-22 was only 2.15. The average number of directors was 1.59, so the number of shareholders was not that much higher. To argue that it would be onerous for the majority of companies to provide shareholder information does not seem so credible when set against the low average number of shareholders by comparison with company directors, as set out in the Government's own data.

I urge the Government to consider this important amendment and hope the Minister will respond positively on how we might move forward with the sentiments and arguments behind it.

2.30 pm

Kevin Hollinrake: I am grateful to the hon. Lady for her amendment. Clause 49 requires companies to provide to the registrar a one-off snapshot of relevant membership information when the first confirmation statement is due following the clause's commencement. The amendment would require companies to provide that relevant membership information annually thereafter. The hon. Lady—or is she right honourable?

Seema Malhotra: Honourable—for the moment.

Kevin Hollinrake: It is only a matter of time. The hon. Lady cited the disturbing case, which I too read about, of Savaro Ltd in Beirut. It may be helpful for me to clarify how the clause as drafted works with existing company law. Companies are already required to provide a confirmation statement at least annually, which records changes in membership information in the previous period. One of the principles behind the confirmation

[Kevin Hollinrake]

statement is that companies should not be required to resubmit information that has already been filed on the register. Through the process, companies are required to either confirm the information submitted previously or provide Companies House with any updates to a variety of information, including the information contained in their register of members.

For example, if information submitted previously about a company's members needed to be updated, or there were new members to disclose information about, the existing confirmation statement process already requires the disclosure of that information. Clause 49 introduces a requirement for companies to file a one-off snapshot of relevant information. That will be the means for companies to provide full names for all their members, as required by clause 44. That will give Companies House the starting point to display the information in a more user-friendly way. That information will then be maintained through existing confirmation statement requirements—annual updates, in effect.

The hon. Lady makes a good point about the usability of the information and the different PDFs being held. Companies House is looking at that. The Government would welcome suggestions on how best to display the information—a simple table would be preferable, in my view—which is to be determined as part of the implementation. That will involve user testing in the usual way to ensure that the information is displayed in a user-friendly way, as the hon. Lady seeks. Although I appreciate the intent behind the amendment, it would serve only to duplicate existing requirements, and would introduce the requirement to deliver potentially the same information on a yearly basis in cases where there had been no change in membership. I would therefore be grateful if she could withdraw it.

Seema Malhotra: I thank the Minister for his comments and his recognition of the important sentiments behind the amendment, which I will withdraw. I think some of the measures he outlined regarding the format of the information on Companies House and searchability will go a long way to addressing the point. I hope that we will be able to continue a dialogue on that, perhaps under his guidance about how we can best engage, to ensure that what is published is searchable and meets the important sentiments of transparency, so that frankly we never have another Savaro Ltd. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Clause 49 is linked to clause 44, to which I spoke a few seconds ago and which introduces new requirements in respect of the names information to be provided to the company in relation to its members, for inclusion by the company in its register of members. Currently, information on shareholders can be contained across multiple filings. The clause requires certain companies to provide the registrar with a one-off list of all shareholders, including their names and how many shares they hold. The first confirmation statement will be due after the new names requirement in clause 44 comes fully into force.

Collecting that information via a one-off snapshot will improve the usefulness of the information on the register by enabling Companies House to display the information in a more user-friendly way. Companies will then confirm the information submitted previously, or provide any updates to Companies House—via the existing confirmation statement process—on the information contained in its register of members.

Seema Malhotra: I have no further points to add.

Question put and agreed to.

Clause 49 accordingly ordered to stand part of the Bill.

Clause 50

ABOLITION OF LOCAL REGISTERS ETC

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Amendment 69, in schedule 2, page 148, line 40, at end insert—

"167GA Unique identification number for directors

(1) On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person.

(2) Any information supplied to the registrar under or by virtue of this Act about a person who has been allocated a unique identification number under subsection (1) must include that number."

Amendment 68, in schedule 2, page 150, line 36, at end insert—

"167KA Limit on number of directorships held

(1) Where notice has been given to the registrar that a person (P) has become a director, the registrar may determine that P may not hold that directorship.

(2) The registrar may make a determination under subsection (1) if the registrar considers that P holds an excessive number of directorships.

(3) The factors that the registrar may take into account in making a determination under subsection (1) are the experience, expertise and circumstances of P.

(4) If the registrar makes a determination under subsection (1), P may not hold office as a director of the company."

Amendment 70, in schedule 2, page 150, line 39, after "167G,", insert "167GA".

This amendment would provide for penalties to apply to anyone failing to provide their unique identification number (see Amendment 69) to the registrar.

That schedule 2 be the Second schedule to the Bill.

Kevin Hollinrake: In last year's consultation on the powers of the registrar, the Government asked stakeholders for their views about the requirements for companies to hold their own registers and to deliver the information contained in them to Companies House. Stakeholders were also asked whether the election regime, by which companies can choose to keep their registers only at Companies House, should be retained. They were clear that centralising certain registers with Companies House could reduce burdens on businesses. In response, the Government said that we would continue to consider updating the registers regime accordingly.

The Government have decided that, where possible, a single source of information about companies is preferable, and that that source should be Companies House. In future, the definitive registers of directors, secretaries and persons of significant control will, in all cases, be held by the registrar rather by companies themselves. Clause 50 introduces schedule 2, which contains the amendments to the Companies Act to implement that policy by setting out the requirements and processes that will apply upon the abolition of local registers and the existing election regime. The changes will apply to registers of directors, of secretaries and of persons of significant control.

Schedule 2 sets out the detailed requirements necessary to give effect to the new regime for companies' registers. The schedule is necessarily long and detailed because of the complexity of re-engineering the existing system to repeal obligations to maintain local registers and replace them with a regime that will result in the population of central registers. What have largely been a range of duties for companies to maintain records are broadly being transposed into an analogous set of obligations to report that information to the registrar. In many instances, companies are currently obliged not only to maintain registers but to notify the registrar of changes to them. The eradication of local registers will therefore serve to ease burdens on business.

However, it is worth drawing attention to a number of areas in which the new registers regime will involve new reporting obligations for companies. Proposed new section 167G will replace section 167 of the Companies Act 2006 and introduce additional requirements on companies. When notifying the registrar of a new director, companies will be required to make statements to verify the director's identity and that the individual is not disqualified or otherwise ineligible to be a director.

Proposed new section 790LB will permit that the notification of a new person with significant control, which is required under proposed new section 790LA, is accompanied by a statement confirming that the individual's identity is verified. If a statement is provided in relation to a registrable relevant legal entity—a legal entity that itself has significant control in a company—it must specify the name of one of its relevant officers and must confirm that their identity is verified. The notice must be accompanied by a statement from the relevant officer confirming that they are the relevant officer of the registrable relevant legal entity.

On amendment 68, which was tabled by the hon. Member for Glasgow Central, given that in our consultation on potential reforms for inclusion in the Bill the Government considered the possibility of including a cap on directorships, I am sympathetic to the underlying intention of the amendment. Approximately three out of four respondents to the consultation opposed a cap. The Government chose not to proceed with one, believing it preferable to verify identities and provide more accurate linkage of records, thereby providing a more accurate picture of involvement with companies. That reasoning stands today.

Analysis of the companies register, together with comparison against other data sets and the reporting of anomalies from obliged entities, will assist in identifying circumstances in which we believe the number of directorships poses a risk of criminal activity. That information will be shared with the relevant enforcement and supervisory bodies.

The amendment proposes a form of fitness test rather than a cap. I acknowledge that this removes some concerns about the bluntness of such a cap and addresses some of the concerns raised by respondents in our original consultation. However, in return the amendment undermines the agency of company owners to act independently and in their own interests when appointing people to run the business they own. It places the registrar in the position of being a higher authority for such appointments. Would they ever have at their disposal the evidence to make a negative determination? What would be the implications of a negative determination on the actions taken by a validly appointed director up to the point of such a determination?

The possibilities in this policy area were given careful consideration as part of the Government consultation. We have not identified a legislative proposal along the lines of 68 amendment that is workable or appropriate. It would undermine business confidence in the UK if companies could not be sure whether their director appointments would take effect. We believe that the new and existing powers to analyse and query information and on identity verification, along with the enhancement that will be brought to linking people across multiple roles and the wider data-sharing possibilities for the registrar, all serve to strengthen our capacity to identify possible grounds for concern. Such concerns can be reported to the relevant agencies, investigated and acted upon, including by pursuing the disqualification of directors, if appropriate. I hope I have clarified why we do not believe the amendment should be taken forward.

Amendments 69 and 70 will be redundant once the expanded power under section 1082 is exercised, as amended under clause 66. The effect will be that all individuals who are under a duty to verify their identity will be assigned a unique identifier when they successfully complete identity verification. This will include all directors, who will commit an offence if they act as a director without having their identity verified.

Seema Malhotra: Will the Minister clarify what he said? Will all directors be given a unique identifier?

Kevin Hollinrake: Yes, that is in clause 66. Further detail about the use and allocation of unique identifiers will be set out in regulations made via the affirmative procedure, so Parliament will have sufficient opportunity to scrutinise them. There is no need, therefore, for the inclusion of a penalty for directors who fail to provide the registrar with their unique identifier. It will be the registrar who issues a director with a unique identifier, not the company or the director. I hope my explanation has provided further clarity on why the amendments are not needed. I urge the hon. Member not to press the amendments to a vote.

2.45 pm

Seema Malhotra: May I ask your advice on procedure, Mr Robertson? Should I speak now on clause 50, the amendments and schedule 2, or should the SNP amendments be moved first?

The Chair: You should speak now.

Seema Malhotra: Thank you, Mr Robertson.

The importance of clause 50, which relates to schedule 2, is obvious and requires no further comment. The Minister's description of schedule 2 as long and detailed was on the button. Its length is understandable given the changes it is making by abolishing the requirement for companies to maintain their own registers of directors, registers of directors' residential addresses, registers of secretaries and registers of people with significant control. Instead, that information will be held centrally by the registrar, with the important provision that companies have a duty to update the registrar of any change to the information.

We welcome the proposed changes in clause 50, but I want to comment on amendments on 68, 69 and 70 tabled by my SNP colleagues, to which I am sure they will speak. Amendment 68 would limit the number of directorships that one individual may hold. Where notice has been given to the registrar that a person has become a director, the registrar may determine that they should not hold that position, if the registrar considers that they hold an excessive number of directorships. That may be achieved by setting a cap on the number of directorships held and it might be possible to override that limit if there were good reason, and a simple means introduced by which that application and argument could be made to the registrar. Such a proposal could be implemented sensibly to bring about the benefits that it offers, especially in the light of some of the abuses committed.

From our evidence sessions and debates in Committee, we have learned that individuals with multiple directorships are a massive red flag in terms of potential criminal activity. In evidence to us on 27 October, Bill Browder said:

"Why is it okay to have a person be a director of 400 companies? That does not make any sense to me. Why should there not be some limitation—maybe 10? Ten companies is a lot of companies—but 400 companies, or a thousand companies?"

—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q151.]

A limit on the number of directorships could easily be set in legislation and that would not stop people conducting their lawful business, but it would make it harder for criminals to use the system and our company structures to launder money and act as drivers of economic crime. It is worth reflecting on the fact that the evidence for that change came from a range of professional bodies. They also said that if they were directors of four, five, six or seven companies, how would they have the time to undertake their responsibilities with the required due care? The Minister referred to the consultation on this issue and said that three out of four of those consulted opposed a cap. Can he give us clarification on the year of that consultation? There are some questions about how we might interpret some of the responses, given the number of respondents and how many responded to all the questions.

In the light of that, I will make a few other remarks. The Association of Accounting Technicians, a registered charity based in London that acts as a professional body for accounting technicians worldwide, echoes Mr Browder's assessment. In September 2020, it published an article recommending a cap of 15 directorships for one person, but it recognised, I think as we all do, that it is a difficult balancing act. We do not want to stop legitimate, lawful and productive activity, but we want to have a way of putting a stop to mechanisms that are easy to abuse. The AAT noted that there was a cap of 15 in Ireland, a general cap of 20 in India, and a cap of five in France that applies to public companies only.

Bodies that responded to the Government's consultation made other interesting comments. There was a wide range of views on the cap, from two to 100 I think, with many suggesting between 15 and 25. This is an important conversation in the light of the scale and nature of economic crime, how it is changing, and the scale of abuse of our company structures. Some action has been undertaken in slightly different contexts, with less clarity about what has been happening with Russian money, Russian oligarchs and the connection to our international security. This year has really helped to challenge and expose much of that, albeit six years after legislation on economic crime was first promised. The point is that we have reached a place where our eyes are wide open now—or definitely wider, if not open completely.

Some of the wider comments and contributions to the Government's consultation may well be worth going back to, in the light of what other countries do seemingly without impeding their economy or their companies' activities. India is a good example of a nation whose trade is growing and that has a real focus on both domestic growth and international trade. I worry that we are closing down some of these debates, when this is a time to review them, perhaps with a slightly more open mind.

Kevin Hollinrake: What limit would the hon. Lady put on it?

Seema Malhotra: The Minister asks a fair question. He is not necessarily stating a cap. Given what has come out in the consultation, and what has been in the articles about whether there should be a cap and what would be right for British companies, it is certainly open to further conversation. It is interesting that in the Government's consultation many were suggesting between 15 and 25, which is in the ballpark of what has been happening in other countries. The make-up of our economy could be slightly different. We have to understand it in the round, and in the context of our economy, but it is a question of a scale of 400 to 1,000.

If the Minister is saying that there might be a level at which there starts to be a red flag, and implicitly that Companies House may implement the legislation, perhaps Companies House and the registrar will say, "Maybe we'll just do a procedural check if we have 25-plus directorships." I do not know. That is where data and analytics help, rather than a ballpark figure. It must be within a considered understanding of how our economy works, and how and where legitimate business is carried out, with a view from directors as well. We might find that it is an easier answer to reach, because it does not have to be one that only we, as Members of Parliament, comment on; it has to be informed.

We are not arguing for a hard cap. We are saying that, as the logic of the SNP amendment outlines, rather than managing on a case-by-case basis, having a way to manage risk structurally and procedurally is an important response to the evidence, the nature of use that we have seen and the situation we find ourselves in today. There is room to learn from the experience of other countries.

Amendment 69 would insert a provision into schedule 2, requiring that:

"On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person."

Amendment 70 follows from that, and would provide penalties for anyone failing to provide their unique identification number to the registrar. We support the spirit of the amendments, but I refer the Committee to our amendments 102 and 103, which we will be speaking to in later debates. Our amendments take a slightly different approach and place a duty on the registrar to give every director a unique identification number, which is published on the registrar's website. I think that approach is tighter.

I hope in his response that the Minister will be clear about what the registrar is required to do versus what they can do, and what will be and will not be published on the unique identifiers for directors.

Alison Thewliss (Glasgow Central) (SNP): I rise to speak to amendments 69, 68 and 70. These are connected amendments to schedule 2. I appreciate the point about clause 66, but we will get to that when we get to it, and we are here now.

The evidence from various witnesses last week, which I have heard over many years, is that the Companies House register is a mess. The amendments seek to tidy it up to some extent. A unique identifier that follows a person all the way through, from becoming a director of a company to perhaps resigning as a director of that company and going on to be a director of a different company at a later stage, would help to trace that person through the Companies House system.

I have mentioned in previous debates that there are three Alison Thewlisses on the Companies House register. They are all me, but they appear three times, and nobody would necessarily know that they are the same person. It would make sense to have a unique identifier attached to me as a person so that people can easily find and trace my history as a company director.

I looked up the Minister on the Companies House register. He is there five times. There are five Kevin Paul Hollinrakes out there in the world. It would be useful for companies doing due diligence or for people seeking to look at somebody's directorship history if there was only one Kevin Paul Hollinrake on the register and we could see a complete picture of all those registrations over the course of his life and career.

That is the main purpose of the amendments—to make registrations traceable and to make the system easier for users and for me, if I want to be a company director, to provide the correct information. I could say, "I am already a director—here's my number; just add it on to the previous things I have."

Amendment 70 seeks to prevent people getting around that system and trying to register themselves perhaps by using their middle name or a different name, as if they were a different person. The unique identifier, once allocated to a person, should always follow that person through the system. If I try to register with my middle name or a married name rather than my maiden name, the system should pick it up. That is often an issue for women in the system. They might look very much like two separate people, with a married name and a maiden name, but they are in fact the same person. That unique identifier within the system would help trace people through, simplifying it for everyone.

Kevin Hollinrake: The hon. Lady has obviously read clause 66, "Allocation of unique identifiers", which I think is what she is seeking to achieve. What about that clause does she not like?

3 pm

Alison Thewliss: Broadly, I support clause 66. The amendments are not to that clause, but to schedule 2, to tighten it up and to improve it in any way we can. I accept what the Minister says. Labour, too, has an amendment to tighten the provisions, and I dare say I will support that as well, when we get to that stage, because all such amendments are to press the Government to tighten things up and to improve the Bill.

On amendment 68 and the number of directorships held, in evidence we heard Bill Browder suggesting the scenario of a drunk Latvian having their passport taken and being registered as a director in hundreds and hundreds of companies. Bill Browder said rightly:

"Why is it okay to have a person be a director of 400 companies?"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 74, Q151.]

Clearly, that is ridiculous. There is no way that someone could fulfil their obligations as a director if they were the director of 400 companies at once. It would be impractical to suggest that anyone could.

Also, Thomas Mayne said:

"On the point about directors, there certainly should be"

a limit—

"it is crazy that you have these people with 1,000 companies."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October; c. 79, Q162.]

It really is.

I do not want to put a specific number in the Bill—that would be something for Companies House and regulations to decide—but we clearly all understand what an excessive number of companies is. Four hundred is excessive and 1,000 is ludicrous. Perhaps the cut-off could be at 20 or 30, although even at that I would struggle to say that someone could make a good job as a company director keeping an eye on all those companies. It is worthwhile looking at the issue, because it is a red flag in the system: if one person is registered to multiple companies, that is a red flag, and it should be something that triggers Companies House to look into them in more detail.

Seema Malhotra: The hon. Lady is making a powerful argument. The Minister asked her what she thought was not sufficient about clause 66. Does she agree that arguing for a unique identifier is about ensuring that it actually happens? The wording of proposed new paragraph (d) in clause 66(2)(c) is to

"confer power on the registrar…to give a person a new unique identifier".

It is a power, rather than a duty. That seems to be at the heart of the disagreement—is it a power or is it a duty?

Alison Thewliss: I agree. I do not want to go too far on clause 66, as we have not reached it, but this is about ensuring that something is in the Bill, that it is hard and fast that it happens, rather than having a suggestion,

[Alison Thewliss]

something that the registrar might like to consider, or some kind of "have regard to". It needs to be there and specified. That is what we are trying to achieve.

Proposed new subsection (3) in amendment 68, on what Companies House should take into account in making its determination under the clause, specifies the "experience, expertise and circumstances" of a director. If someone has long-term experience of running companies that actually existed and have filed accounts, there is something tangible there and then Companies House can say: "Oh yes, that person has 30 directorships, but they are active in all those directorships, and we know what they are." However, if someone has no active activity that Companies House can fill in, that becomes a red flag under amendment 68. It would give Companies House a degree of discretion. Wherever it might want to put the number is also a factor.

The Minister is trying to suggest that having such a check would be an inhibition to business. I do not believe that, and I am interested to hear what evidence the Minister has to suggest that such a limit on directorships would inhibit businesses in any way. As the Labour spokesperson, the hon. Member for Feltham and Heston, mentioned, other countries have such a rule. Those restrictions are in place elsewhere around the world, so the comparison would be interesting: do they feel that businesses, directorships and the involvement of people in companies are inhibited by having such a rule? We are proposing a change to the Bill to help Companies House do its job, to help it with the red flags and to give it an action to take once it has seen the red flags and identified them through something such as holding multiple directorships.

Kevin Hollinrake: Let me quickly respond. The shadow Minister wanted to know the date of the consultation that the three out of four figure came from. It happened between 2019 and February 2021, so it was pretty recent.

The issue of whether there should be a cap and where it should be set has been raised by both hon. Members. We think it is wrong to set a cap. The hon. Member for Glasgow Central asks the interesting question of, "Why do we need all these companies, and why do they need to be registered?" We believe that it is ours not to reason why. We believe in freedom and that people should be allowed to live their lives as they choose. We do not seek to put restrictions on people for no good reason.

Alison Thewliss: Will the Minister give way?

Kevin Hollinrake: I will go on. We think there may be a nefarious reason why a person is a director of many companies. The hon. Member for Glasgow Central mentioned red flags in her speech, and that is exactly how we see this operating. It may well be that Companies House determine that there is a cap of 20, and when somebody gets to 20 directorships, then they become a risk. It may then look further into what that person is doing and share that information with law enforcement agencies. We would rather leave it to the discretion of the registrar to determine where the red flags should be, rather than impose it through the Committee.

The hon. Member for Glasgow Central took the opportunity to google my directorships, and she found that incredibly easy to do. Just type in "Kevin Hollinrake directorships" and it lists all my directorships.

Alison Thewliss *indicated dissent.*

Kevin Hollinrake: It is my name and all my directorships are listed underneath.

Alison Thewliss: But they are separately listed.

The Chair: Order. One at a time.

Kevin Hollinrake: I am sure it is on Companies House right now. There are 20 records. The hon. Member for Glasgow Central would maybe say that I cannot be director of any more companies, as I am already director of 20, but I have valid reasons for being directors of all those. I can promise her that none of it was for criminal purposes. The hon. Lady may say there should be a limit, but we think that basically we should leave it to the discretion of Companies House and the registrar to do the right thing—set the red flags where most appropriate and then identify risk and act accordingly.

Alison Thewliss: The Minister talks about not wanting to look at someone's motivation for having, say, 400 company directorships. It is really is a case of, "There might be a reason, but we're not going to ask about it. Why should we?" I think Companies House should be inquisitive about somebody who has 400 directorships, but the Minister is not tasking it to be inquisitive through the legislation. Tasking Companies House to be specifically inquisitive on that point is important, because the Bill does not put a duty on it or give it the right to be inquisitive.

Looking at the Companies House register, it appears that the Minister is listed five separate times—with one appointment, with zero appointments, with one appointment, with another appointment and with 18 appointments. They all appear as separate entries, not as one single person. A unique identifier would seek to grab those entries and put them in one place. That would make more sense. It would make it more traceable. I gave the example of myself being in there three separate times with three separate directorships, which are from very different points in time. If the entries were all in one place, it would be a neater and tidier way of logging them.

The Chair: Does the Minister wish to speak again? No, okay.

Question put and agreed to.

Clause 50 accordingly ordered to stand part of the Bill.

Schedule 2

ABOLITION OF CERTAIN LOCAL REGISTERS

Amendment proposed: 69, in schedule 2, page 148, line 40, at end insert—

"167GA Unique identification number for directors

(1) On receipt of notification of a person becoming a director, the registrar must allocate that director a unique identification number, unless such a number has already been allocated to that person.

(2) Any information supplied to the registrar under or by virtue of this Act about a person who has been allocated a unique identification number under subsection (1) must include that number."—*(Alison Thewliss.)*

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 9.

Division No. 5]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Amendments made: 44, in schedule 2, page 150, line 23, leave out "registered or".

This amendment would mean that the required information that must be provided about a corporate director includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Amendment 45, in schedule 2, page 150, line 23, at end insert—

"(ba) a service address (which may be stated as 'The company's registered office');".—*(Kevin Hollinrake.)*

This amendment requires a company to provide a service address for directors who are not individuals.

Amendment proposed: 68, in schedule 2, page 150, line 36, at end insert—

"167KA Limit on number of directorships held

(1) Where notice has been given to the registrar that a person (P) has become a director, the registrar may determine that P may not hold that directorship.

(2) The registrar may make a determination under subsection (1) if the registrar considers that P holds an excessive number of directorships.

(3) The factors that the registrar may take into account in making a determination under subsection (1) are the experience, expertise and circumstances of P.

(4) If the registrar makes a determination under subsection (1), P may not hold office as a director of the company."—*(Alison Thewliss.)*

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 9.

Division No. 6]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Amendments made: 46, in schedule 2, page 153, line 35, leave out "registered or".

This amendment would mean that the required information that must be provided about a corporate secretary or joint secretary includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Amendment 47, in schedule 2, page 153, line 35, at end insert—

"(ba) a service address (which may be stated as 'The company's registered office');".

This amendment requires a company to provide a service address for secretaries or any joint secretaries who are not individuals.

Amendment 48, in schedule 2, page 156, line 2, at end insert—

"(2A) In subsection (2), after paragraph (b) insert—

'(ba) a service address,'.

(2B) In subsection (3)—

(a) in paragraph (b), omit 'registered or';

(b) after paragraph (b) insert—

'(ba) a service address,'."—*(Kevin Hollinrake.)*

This amendment requires a company to provide a service address for those with significant control over a company who are not individuals. It also means that the principal office must be provided in all cases, rather than there being an option to provide its registered or principal office.

Schedule 2, as amended, agreed to.

Clause 51

PROTECTION OF DATE OF BIRTH INFORMATION

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: The clause would make amendments to the Companies Act 2006 to streamline filing obligations and remove unnecessary burdens, and to provide more protection of personal information than is currently the case. Clause 50 will remove the option for a company to elect to hold its register of directors or its register of people with significant control solely on the central register—the one held by the registrar.

Currently, when companies elect to hold their registers at Companies House, personal information, such as a date of birth, is publicly available on the register. That is because the election regime replicates what would happen if a member of the public asked to view the registers at the company's registered office. When the election regime is removed, clause 51 will ensure that date of birth information is protected from public inspection, in the same way as dates of birth from non-elected filings are protected. The clause also provides that information such as dates of birth provided prior to 10 October 2015 will not receive automatic protection in the same way. Other provisions in the Bill will enable individuals to apply to protect historic information when it still appears on the public register.

The clause will amend the Companies Act 2006 to streamline and protect personal information of individuals that could otherwise increase the risk of identity theft or other fraud. It clarifies the extent of that protection, which, with some exceptions, will be applied to documents received from 10 October 2015.

3.15 pm

Seema Malhotra: As the Minister mentioned, the clause amends the Companies Act in relation to individuals' dates of birth and when they can be restricted from disclosure. The measures are important for occasions when the disclosure of someone's date of birth would be inappropriate or unnecessary, so we support the clause.

Question put and agreed to.

Clause 51 accordingly ordered to stand part of the Bill.

Clause 52

FILING OBLIGATIONS OF MICRO-ENTITIES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 53 to 56 stand part.

Kevin Hollinrake: This group of clauses will improve the quality and value of financial information on the companies register.

Clause 52 will require a micro-entity company to file both its balance sheet and profit and loss account with the registrar. It removes the current option available for a micro-entity to omit—or fillet out—its profit and loss account when filing its accounts with Companies House. Clause 53 will require small companies to file a profit and loss account, and a directors' report, when filing their accounts with the registrar. Clause 54 ensures that clauses 52 and 53 operate as intended by amending references to the existing small company and micro-entity filing obligations in the Companies Act 2006.

Clause 55 requires any companies seeking an audit exemption to provide an additional statement from their directors. That will help to deter fraudulent under-reporting by companies and, where a company director has provided a false statement, provide additional enforcement evidence that can make it easier to successfully prosecute directors. Finally, clause 56 removes the option for small companies, including micro-entities, to prepare and file a set of abridged accounts.

Collectively, the clauses will ensure that more financial information for micro-entities is publicly available on the register, helping to inform better business and lending decisions. They will ensure that the company's turnover—one of the three eligibility criteria that determine the size of the company and what it must file with the registrar—is publicly available. The clauses will also provide greater transparency of micro-entity accounts, which will help to deter fraudulent or criminal activity and make such activity more easily identifiable.

It is crucial that we strike the right balance between transparency and burdens on business. As micro-entities already file a copy of their annual accounts for other purposes—tax returns with His Majesty's Revenue and Customs, for example—the changes will not be overly burdensome for them.

Seema Malhotra: I thank the Minister for his comments. We welcome the measures in these clauses.

As the Minister said, clause 52 updates the filing requirements for micro-entities. A company is a micro-entity if it has any two of the following criteria: a turnover of £632,000 or less, a balance sheet of £316,000 or less, or 10 or fewer employees. The technical definition of a small company is any company that has any two of the following criteria: a turnover of £10.2 million or less, a turnover of £5.1 million or less, and 50 employees or less. Although we use the terms micro and small entities—in terms of the scale and size of other companies, that is significant—they can be larger than the terms indicate. That increased transparency from clause 52 is important.

We welcome clause 52 as a reflection of the fact that insufficient information is filed from those micro-entities to give a true and fair view of their financial position. The minimal disclosure requirements at present have also made them attractive to fraudsters who want to present a false picture.

There were 1.3 million micro-entity accounts filed in 2019-20. It is the most common choice for account filings. The Government's December 2020 consultation on improving the quality and value of financial information on the register noted:

> "Fraud investigation bodies have reported that micro-entity accounts are often used by companies that are investigated in money laundering cases."

It is therefore absolutely right to tighten things up and seek greater transparency in the accounts and financial positions of companies' activities. However, that raises the important question of whether any further work might be needed on micro-entities, although that question is for another debate.

On roll-out time, the Bill's impact assessment suggests on page 76 that familiarisation time will be needed to get micro-entities up to speed with the changes, but there should not be significant additional costs, as companies already collect and submit additional information to HMRC in tax filings. In the light of what we and the Minister have said, we want moves that stop the criminal behaviour, but do not impede ordinary, good, productive and lawful business, so the measures are welcome. We want to see them come into force as soon as is practicable. The Secretary of State may make a determination later about when to bring the requirements into force, but perhaps the Minister will indicate today when he expects the Government will want the new requirements on micro-entities to become operational.

We welcome clause 52 as a necessary means to ensure that small businesses that are not micro-entities file full accounts to the registrar—which, again, will increase transparency and the availability of information. Clause 54's consequential amendments seek to ensure that clauses 52 and 53 function as intended.

I want to make a few comments on clause 55. Perhaps the Minister can clarify the exemptions from audit requirements under this clause. When a company seeks an exemption from the requirement to have its accounts audited—for example, because it is a small company with £10 million or less in turnover—the clause would require directors to make a statement confirming that the company qualifies for an exemption.

I would appreciate it if, in the interest of the robustness of legislation, the Minister would expand on the clause and clarify what qualifies a company to have an exemption in that regard. The Government brought in an increase in audit exemption levels, effectively making more companies eligible for exemptions, and that goes back to the 2013 EU accounting directive, which sought to simplify requirements on companies submitting accounts and gave member states the flexibility to increase the small company accounting and audit exemption thresholds. Is there likely to be any review of those thresholds? Perhaps the Minister can enlighten me as to whether there is clear demand for that.

In the light of current circumstances—the clamping down on, and growth in, economic crime, as well as the transformations we will have seen in the last six, eight or

10 years—will the Minister tell us whether the high thresholds brought in by the Government have reduced audits and the transparency of information on the register? Have they affected the extent to which information filed by companies is trusted? Is the Minister interested in considering whether the levels for audit exemption are acceptable and right in the context of current economic crime, or does he think, in the light of the opportunities presented by the Bill, that there is reason to look at any of that again?

We welcome clause 56 as a necessary provision for improving the accuracy of information in relation to small companies.

Kevin Hollinrake: I will check the implementation date of the new rules around filing full accounts and let the hon. Member know in detail.

In terms of the audit exemption, the threshold is currently £10.2 million. We will always keep that under review, because we are trying to ease the burden on business while ensuring that nothing untoward is happening. Having been through the process myself, I know that auditing a business is very extensive, exhaustive and expensive. It is absolutely right that we seek to reduce burdens on business whenever we can, while also putting appropriate checks and balances in place.

Question put and agreed to.

Clause 52 accordingly ordered to stand part of the Bill.

Clauses 53 to 56 ordered to stand part of the Bill.

Clause 57

Confirmation statements

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 58 to 60 stand part.

Kevin Hollinrake: The clauses in this group will help the registrar to fulfil their new objectives, as set out in clause 1. Clause 57 obliges companies to notify the registrar of additional information that is required to be delivered under new requirements brought in via the Bill. Companies will have to do this before, or at the same time as, delivering their annual confirmation statement. The new information of which companies will have to notify the registrar will be to confirm the company's lawful purpose. If it is the company's first confirmation statement, as it is a newly incorporated company, the company will need to notify the registrar of any changes that have happened between its application for incorporation and the incorporation taking place.

The annual confirmation statement is a fundamental aspect of that data. It provides an opportunity for a company to focus its attention on the statutory requirements that it has to meet, and it also re-establishes the benchmark against which a company is assessed by others, including the registrar.

Clause 58 ensures that the registrar will have up-to-date information that will allow them to uphold the investigations and sanctions regime more effectively. The accuracy of the information provided in the confirmation statement is obviously of key importance, given that making false statements, or failing to deliver confirmation statements, may result in an offence being committed.

3.30 pm

Dame Margaret Hodge (Barking) (Lab): What happens if it is a false statement? Who will uncover that?

Kevin Hollinrake: Who will uncover—

Dame Margaret Hodge: If a false statement is put in. I mean, I was just—

The Chair: Order. Is this an intervention?

Dame Margaret Hodge: I ask the question for a reason. I did not intervene during the previous debate, but the Minister might know—I certainly do—that thousands and thousands of microbusinesses are supposed to put their annual accounts in to HMRC, but do not do so, and nobody ever goes after them. There therefore may be thousands and thousands of businesses that put in false statements. Given the anti-regulatory stance that the Minister has displayed today, I am just interested in knowing who will actually check the statements and what will happen then.

Kevin Hollinrake: I am very disappointed that the right hon. Lady regards me as anti-regulatory. I want a system that allows good, bona fide businesses to go about their daily business without unnecessary checks and balances. We cannot control everything that goes on in our society but, in the main, businesses are lawful, and undertake lawful and legitimate commercial activity.

If the right hon. Lady expects a world in which we check every single filing, nobody will be doing any commercial work in our society. The only people we will have will then be box-checkers, and where would the tax revenue come from to pay for all the things that both she and I want in our society?

We must have a proportionate balance between regulation, the cost of resourcing regulators and the needs of law enforcement agencies. That is why our belief, which I know is not entirely hers, is that we need to take an intelligence-based approach to regulation. That is the most effective way to do it.

Seema Malhotra: I think we all agree that we do not want to do things that impede lawful activity—that is not a matter for debate, really. The question is whether the systems will be strong enough. They do not have to be burdensome; there are ways in which systems can have automatic checks, and be underpinned by clear roles and responsibilities. The question of who would know whether there are errors in a confirmation statement, and how that would be checked, is quite an important one for ensuring that we are not—

The Chair: Order. This is an intervention. I call the Minister.

Kevin Hollinrake: I do not disagree. I agree with the hon. Lady about automation, but checking every single document and every single file would be ludicrously burdensome, because 99% of those filings would be legitimate documents. I speak as somebody who has been an authorised person under the FCA, so I know how many checks, and double-checks, someone in such a position has to make. The vast majority of people who the FCA regulates do a bona fide, legitimate job.

[Kevin Hollinrake]

We are trying to find the people who are not doing so, and what we are trying to do through the Bill is to allow the sharing of information and the cross-referencing of information to identify all the red flags—the hon. Lady talks about automation—and then trigger alerts that can be investigated. I think that we all agree about that, and that is the approach that we are taking.

As I was saying, these measures will all ensure that companies, once formed, will reassert to the registrar via their annual confirmation statement that the company's intended future activities are lawful.

Clause 59 will oblige a company to notify the registrar via its first annual confirmation statement of a change in its principal business activity if such a change takes place between the company's application to be incorporated and the incorporation taking place. That addresses the fact that there is currently no duty to notify the registrar during the incorporation process. This new obligation builds on the existing obligation in section 853C of the Companies Act 2006, whereby companies have to notify the registrar of a change in principal business activities via their annual confirmation statement.

Clause 60 amends section 853J(4) of the Companies Act so that the framing of criminal offences is consistent with similar provisions in this Bill. It also makes the same amendment to section 853L(1), which concerns the offence of failing to submit a confirmation statement on time. It will clarify that every officer of the company who is in default can commit the offence, as well as every director of the company. It also corrects an irregularity with the framing of the offence, which currently imposes strict liability on all the company's directors and secretaries, regardless of whether they are in default—in other words, regardless of whether they authorised, permitted, participated in, or failed to take all reasonable steps to prevent, the contravention. I hope right hon. and hon. Members agree that it is important that these measures reach the statute book.

Seema Malhotra: We welcome clause 57 which, as the Minister said, prescribes the company's duty to notify the registrar about certain events and provide certain information in advance of and at the same time as the delivery of the annual confirmation statement. That is obviously very important.

We have already debated some of the issues that clause 58 addresses. It is obviously an important clause, and the Minister has outlined that the approach is to hope for accuracy, based on risk assessments and red flags. We understand that, but it still does not feel as strong as we need it to be. It does not feel clear and strong on detecting issues, and it does not give the registrar a clear expectation of what the Minister intends. It felt a little like the Minister was just hoping that everything would work out. We should be clearer about what steps should be taken on detection, prevention and enforcement, and ensure that that is as strong as possible through the passage of the Bill. That is incredibly important, because we know that those are weak areas.

My right hon. Friend the Member for Birmingham, Hodge Hill made the very important point that we need to clarify what is expected of the registrar. They will be subject to many different demands, and in some ways it will make their life easier if they see in *Hansard* that there is a clear expectation from the Government, the Minister and the House about what is to be done. That would aid the call for greater resources, as it is frankly a way of making savings from enforcement later, and increasing the speed of detection will considerably lower the cost of economic crime. I hope that the Minister recognises that I am putting these comments and questions to him in the hope of detecting ways of tightening up the message about what we expect, in order to better implement the Bill and its stated goals.

We welcome clause 59, which I think we referred to earlier. Clause 60 will align terminology around existing offences relating to confirmation statements. The Minister outlined the detail of that. I raise a similar question as previously, because I seek clarity from him on what it will mean in practice for companies that breach the new provisions around confirmation statements. What is the result of failure to comply with the provisions, and who will be held to account? Clarifying that would be quite helpful. It would also be helpful to understand whether the Bill will allow for retrospective penalties, should information on the confirmation statements turn out to be misleading, and perhaps purposefully misleading.

Kevin Hollinrake: The hon. Lady raises some good points on retrospective penalties. I will find out that information and come back to her.

Question put and agreed to.

Clause 57 accordingly ordered to stand part of the Bill.

Clauses 58 to 60 ordered to stand part of the Bill.

Clause 61

Identity verification of persons with significant control

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss new clause 27—*Reporting requirement (identity verification)*—

"(1) The Secretary of State must publish an annual report on the progress of establishing identity verification procedures in relation to proposed officers and persons with initial significant control.

(2) The first report must be published within three months of this Act being passed.

(3) A further report must be published at least once a year.

(4) The Secretary of State must lay a copy of each report before Parliament."

This new clause would add a requirement on the Secretary of State to report on the progress of establishing identity verification procedures for proposed company officers and persons with initial significant control.

Kevin Hollinrake: I am aware that hon. Members have tabled amendments in relation to ID verification in the groupings to follow, but I will first speak to the first clause in this chapter. Clause 61 introduces requirements for people who own or control companies to undergo ID verification to improve the reliability of information on the company register. The UK was the first G20 nation to introduce a public beneficial ownership register of companies: the people with significant control register, which has more than 5.8 million entries about people with significant control over entities on the company register. The clause will apply ID verification requirements to persons with significant control and relevant legal entities on the register. It is a vital clause.

If a company has not voluntarily delivered a statement confirming that the identity of a person with significant control is verified, the registrar will direct such a person with significant control to make an identity verification statement within 14 days. A company might be owned or controlled not only by individuals, but by legal entities—for example, other companies. To be a registrable relevant legal entity, a legal entity must meet certain conditions, and be subject to its own disclosure requirements. It is registrable in relation to a company if it is the first legal entity in the company's ownership chain.

Where there is a registrable relevant legal entity in relation to a company, and the company has not voluntarily made an identity verification statement for that RLE, the registrar will direct such a relevant legal entity. That direction will require the entity to make a statement within 28 days, naming its verified relevant officer. The statement by the RLE must include a statement made by the relevant officer confirming that they are a relevant officer for the entity. That will prevent individuals from being notified without their consent or any relation to the entity.

The clause creates a duty on persons with significant control to maintain their verified status as long as they are registered with the registrar. The RLEs will also be under a duty to maintain a verified relevant officer as long as they are registered with the registrar. That is to ensure that a verified individual is always traceable for each RLE. Failure to comply with the registrar's directions or to maintain a verified status is an offence under the clause.

3.45 pm

I thank the hon. Members for Feltham and Heston and for Aberavon for tabling new clause 27. Establishing the ID verification regime will require significant operational planning and systems development, both of which are under way at Companies House. It will further necessitate the making of secondary legislation, much of which is dependent on operational detail from Companies House. Secondary legislation about ID verification will be made using the affirmative procedure.

Work on the regulations will begin immediately after Royal Assent, and we will lay them before Parliament as soon as we are able to do so. That will give Members an opportunity to meaningfully debate the details of the ID verification process and the progress being made to put in place the necessary systems. As a result, introducing a requirement on the Secretary of State to report on the progress of establishing the ID verification regime is not necessary. I therefore thank the hon. Members for the new clause but ask them not to press it.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Mr Robertson. I think it is safe to say that we are coming to one of the most significant and consequential aspects of the Bill.

Clauses 61 to 67 take up a full 15 pages and provide a framework for the verification of the identities of individuals listed on the register of people with significant control, whom I will henceforth refer to as PSCs. Since its launch in 2016, the PSC register—more colloquially described as the register of beneficial owners of UK companies—has made important progress towards corporate transparency, but it remains very much a work in progress.

Much of this Bill is rightly concerned with closing loopholes in existing legislation and, as it stands, the PSC system has loopholes that are big enough to drive a coach and horses through. Even if we could rely on the good faith of all those who register, we would still be stuck with the fundamental problem of the 25% ownership threshold. The ease with which that can be used to circumvent the registration requirement—for instance, simply by splitting ownership shares between four people, who may all be family members—has been extensively discussed and is well documented.

During last week's evidence sessions, my right hon. Friend the Member for Barking rightly drew attention to the case for a threshold set much lower than 25%. In response, Professor Elspeth Berry argued that although the threshold should certainly be lowered, even

> "a zero percentage could be considered."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 103, Q194.]

That is the case, given how many different and probably more relevant ways there are of measuring corporate control in the modern business environment.

The Government will likely argue that 25% is a widely used international standard, but we should be clear about what that means. Nowhere is it suggested in any of the international frameworks to which the UK is a party that 25% ownership is anything more than an example of how a country might seek to define beneficial ownership. In fact, many jurisdictions set ownership thresholds much lower than that. Some jurisdictions—including Belize and Jersey, which are not exactly known as paragons of corporate transparency—use a 10% threshold. The Government's failure to take the opportunity provided by the Bill to revisit the definition of beneficial ownership is, to put it mildly, a disappointment.

I will now look more specifically at ID verification. Clause 61 is the first of a series of clauses in which the Government enable new powers to be introduced to ensure that information on PSCs can be verified. Subsequent clauses stipulate that full details of the verification regime will be set out in regulations at a later date.

The Opposition find the absence of substantial details on verification procedures in the Bill perplexing. It is now more than three years since the Government launched the first of what turned out to be no fewer than four separate consultations on proposed reforms to Companies House, which included proposed ID verification powers. It is not at all clear why, after all this apparent effort, Ministers are still unable to set out specific plans in legislation. Perhaps the reason is that they have been struggling to make a decision and stick to it.

In the first consultation document back in May 2019, the Government stated fairly unambiguously that they believed that Companies House should be given responsibilities for ID checks. That view was reiterated in subsequent consultation documents published in February 2021, which seemed to indicate that the Business Department is better at flogging a dead horse than at drafting legislation. More than a year passed before the Government finally published a White Paper. By that time, Ministers appeared to have gone lukewarm on handing responsibility for ID checks to Companies House, with a shift in emphasis towards outsourcing the checks to third parties that are collectively known as

[Stephen Kinnock]

trust or company service providers. Somewhat confusingly, they are now referred to in the Bill as "authorised corporate service providers", or ACSPs.

That is extremely problematic, for a whole range of reasons. First and foremost, TCSPs represent a highly fragmented sector, making supervision of their activities very difficult indeed. Some may be supervised by professional bodies—for example, if they provide accountancy or legal services—while others may be supervised by HMRC. In some cases, there is no supervision at all, leading RUSI's Helena Wood to compare the sector to the wild west. Ministers now propose to place an enormous amount of trust, faith and responsibility on the shoulders of TCSPs, about which they know very little.

Speaking to the Treasury Committee earlier this year, Graeme Biggar, the then director-general of the National Economic Crime Centre, said:

"We are developing a plan with HMRC and the Treasury to have both more supervision of, and more enforcement against, company formation agents. We are on it, but it is not the most developed of our plans. We have really got to do more work on that."

It would be excellent if the Minister could give us an update on the progress of the work that Mr Biggar referred to in that evidence.

As things stand, it is hard to imagine what the Government were thinking with the proposals in these clauses. This is not just a case of sharing responsibilities for supervision between the public and private sectors, as is already the case in the legal, accountancy and some other sectors; this is about outsourcing a set of tasks to the least regulated, least understood and potentially least reliable part of the entire financial services industry. The Government's own assessment in their national risk assessment was that TCSPs pose a high risk of being used for money laundering purposes. A previous risk assessment said:

"Ineffective AML supervision leads to inadequate compliance with the rules, and low and poor quality reporting of suspicious activity".

For at least the past seven or eight years, official reports and media coverage have documented the involvement of UK-based TCSPs in the efforts of oligarchs, many of whom are Russian, to conceal their wealth in opaque webs of corporate structures. It should be clear by now that the Opposition have serious concerns about the proposal to outsource ID checks to the sector. We have therefore tabled new clause 27, which would require annual reporting on the progress towards establishing verification procedures, in order to probe the Government's rationale for the policy. I hope that the Minister will take seriously the concerns I have just outlined, and that due consideration will be given to whether the policy is really in the interests of tackling economic crime and improving corporate transparency.

May I just ask you for clarification, Mr Robertson? Do you wish me to stop there or—

The Chair: You can discuss new clause 27 now if you wish.

Stephen Kinnock: I would be very happy to pause and provide the Minister with an opportunity to respond, if he wishes to do so, on clause 61.

The Chair: As you wish. I will bring Alison Thewliss in next, but we can come back to you, Mr Kinnock.

Stephen Kinnock: Thank you, Chair.

Alison Thewliss: I wholeheartedly support Labour's new clause. There is an awful lot more that needs to be done to tighten up the measure on verification. Nick Van Benschoten, in his evidence, said:

"On the verification measures, one of the key points is that they fall short of minimum industry standards. Verification of identity is necessary but not sufficient. A key thing we have noted is that the Bill does not provide for order-making powers to allow Companies House to verify the status of directors or beneficial owners, and for that sort of requirement on company information agents and so on. That seems an odd gap."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 7, Q3.]

I wholeheartedly agree with that. It is the key part of the Bill. If we are not going to verify people on the register, there is almost no point in having the legislation. It is the verification that is crucial.

Hand in hand with that are the fines for not complying with the verification. I draw the Minister's attention, again, to the people with significant control over Scottish limited partnerships. There has been one fine of £210 since the rules came into place. That is no kind of deterrent whatsoever. The rules need to be here, the verification needs to be right, and the sanctions for not complying must be enforced. I would say that even the sanctions are far too low.

Leaving trust and company service providers to verify identity leaves the door wide open to abuse. There is already abuse, and the Government's position in the Bill is to continue to allow that to happen. As the hon. Member for Aberavon said, trust and company service providers have been identified in numerous Government documents as being the gap that allows money laundering and international crime. That cannot be allowed to continue in the Bill. If the Government leave the door open for the trust and company service providers, they will continue to abuse the system and the register will continue to be full of absolute guff.

I raised the issue of verification in the House, albeit, I appreciate, with a different Minister, the hon. Member for Torbay (Kevin Foster). He suggested that a decision had not yet been made on how the verification system would work. My suggestion was that it go through the UK Government's existing verification scheme, which is used for passports, driving licences and tax returns, because that system is already up and running. The response suggested that that had not yet been decided.

However, it was drawn to my attention today that Companies House has already put out a tender for a verification system. A tender went out on 10 October and closed on 24 October for an "authentication digital delivery partner", looking for people to come and work on this system. I am curious to know why, when we have not yet got this legislation in place, the Government have tendered the contract and closed the application process for the company to build the system.

I would be grateful for some clarification from the Minister on exactly what the status is of that £3.7 million contract, which Companies House has already put out to tender. Why has it gone out before the Bill has concluded if Companies House does not know what it

is building yet, and when amendments are still being tabled? I appreciate that the Government want to move at speed, but putting the cart before the horse in this way seems quite wrong.

We would like the verification to be strengthened, but if the Government have already instructed a contractor on what it will build, why are we even here this afternoon?

Dame Margaret Hodge: I seek your guidance, Mr Robertson: we are talking about clause 60, are we not?

The Chair: We are talking about clause 61, but we can also discuss new clause 27.

Dame Margaret Hodge: Yes; the others come later.

After the excellent speech by my hon. Friend the Member for Aberavon, I will speak briefly. I have two things to say. We will come back to the issue of shareholders, data and the threshold, which is really important, and I will certainly come back to the issue of trust or company service providers, because Labour Members all think that it is key to get that right if we are to have any credibility about the integrity of the list.

I want to talk about new clause 27. The Minister has said a number of times that he does not want to impede business. I do not think any Opposition Member wants to impede business either. We want to have smart regulation, not too much regulation. The purpose of this debate is to ensure that the regulation is indeed smart. At the moment, there are too many flaws.

4 pm

The Minister has said consistently that we should let Companies House and all the enforcement agencies get on with it and that they should account to Parliament. New clause 27 is one of the ways in which those organisations can do that. It is not just about developing the criteria for the identification procedure; that should have been in the Bill and not in regulation. There has been plenty of time to develop it for inclusion in the Bill, but that has not happened and it will go through regulations under the affirmative procedure. I understand that.

However, this is a key part of the annual work of Companies House. If the Minister wants real accountability, he ought to accept in good faith the new clause put forward by my Front-Bench colleagues and agree to implement it. There is no good reason whatsoever that we should not have regular accountability to the House from Companies House on how it is exercising its obligations and powers.

The Chair: For clarification, we will not vote on new clause 27 until later in the proceedings, and probably not today. We are discussing it now. In view of the fact that new clause 27 has already been raised, would you like to speak to it now, Mr Kinnock?

Stephen Kinnock: I have made the points that I wish to make about new clause 27.

The Chair: Thank you. I call the Minister.

Kevin Hollinrake: As an overriding point, we all know how important the integrity of the ID verification system is. I completely agree with that and we need there to be confidence in it.

On the point raised by the hon. Member for Glasgow Central, it is not right that a tender has gone out already. A request for information has been put out to determine some of the characteristics of the suppliers to learn what services they provide, but a tender has not gone out. Once determined, the ID verification system will be brought to the House to be approved by affirmative resolution. There will be opportunities for debate at that time to make sure it is fit for purpose, both in the framework and how it will be operated.

On the comments the hon. Member for Aberavon made about persons of significant control, first, I think he makes the exact case that we would make. A 25% threshold is pretty much the global standard, but even if it were lowered, people could find ways around it—even if there were a 0% threshold, as was suggested by Professor Elspeth Berry. That is why the definition of a person of significant control is not solely about the percentage of the shareholding of a company. There are five definitions, including one I that believe will interest the hon. Gentleman, which is somebody who, other than by shareholding,

"has the right to exercise or actually exercises significant influence or control"

over a company. Therefore, there could be zero shareholding and they would still be a person of significant control. How is that enforced? If directors allow that to happen and do not declare that they have a person of significant control, they are liable for a fine and a custodial sentence of up to two years. We do deal with that in a reasonable way.

Some valid concerns have been expressed about company formation agents. I am happy to write to the National Crime Agency to ask what it has done about them. However, not all company service providers are company formation agents; there is a distinction. A company service provider may well be a large accountancy practice, such as Deloitte, PwC or KPMG. The hon. Member for Aberavon stated that such organisations know very little about their clients and offer a blanket service, but I do not think that is fair. My accountants can verify my ID and they know a great deal about me, I can promise the hon. Gentleman.

Of course we must make sure that the system is robust, and I acknowledge that there are some concerns about the supervision of those registered as supervised for money-laundering purposes. Of course we must be sure that the system is right. As hon. Members are aware, I think, the Treasury is looking at means of improving the regime to ensure that the supervision is much better, and it needs to be. The difficulty is—we will have more debate about the issue in forthcoming sittings—whether we want to get everything perfect in the system before we start ID verification, or whether we start ID verification. In my view, it is essential that we get that ID verification done as quickly as possible. Waiting until the AML supervision regime is absolutely perfect would be a mistake, in my view. The two things should happen concurrently.

I understand the reasoning behind new clause 27. I completely agree with the idea of giving confidence to Parliament that the matters are being taken forward. I am happy to commit to return to Parliament to communicate by whatever means is preferable—written ministerial statement or oral statement—what progress

[Kevin Hollinrake]

has been made to ensure that Parliament has the information that it needs to hold Companies House and other agencies to account.

Dame Margaret Hodge *rose—*

The Chair: The Minister is finished. If someone else wishes to speak, they can stand in the normal way and indicate.

Dame Margaret Hodge: I am grateful to the Minister for saying that he will return to Parliament, but new clause 27 is designed to ensure that there is an annual report to Parliament. That means that our successors—certainly mine—will be able to hold Companies House to account over time. He knows that accountability is absolutely vital to ensuring the integrity of the system.

Question put and agreed to.

Clause 61 accordingly ordered to stand part of the Bill.

Clause 62

PROCEDURE ETC FOR VERIFYING IDENTITY

Stephen Kinnock: I beg to move amendment 108, in clause 62, page 47, leave out lines 14 and 15.

The Chair: With this it will be convenient to discuss the following:

Amendment 109, in clause 62, page 47, leave out lines 18 to 20.

Amendment 78, in clause 62, page 47, line 20, at end insert—

'(2A) No verification statement may be made by an authorised corporate service provider until the Treasury has laid before Parliament a report confirming that the Treasury's review of the UK's anti-money laundering and countering the financing of terrorism regulatory and supervisory regime has been completed.'

This amendment prevents an authorised corporate service provider from making a verification statement prior to the completion of the Treasury's review of the UK's anti-money laundering regime.

Amendment 107, in clause 62, page 47, line 20, at end insert—

'(2A) The regulations must make provision for the evidence required to verify an individual's identity for the purposes of subsection (2)(a) to include—

(a) an identity document with a photograph of the individual's face; and

(b) an identity document issued by a recognised official authority.

(2B) For the purposes of subsection (2A)(b) above, "a recognised official authority" includes—

(a) a department or agency of the UK government;

(b) a department or agency of any of the devolved nations;

(c) a department or agency of the government of another country;'.

Amendment 110, in clause 62, page 47, leave out lines 34 to 37.

Amendment 111, in clause 62, page 47, line 43, leave out from "registrar" to the end of line 44.

Amendment 112, in clause 62, page 48, leave out lines 4 to 26.

Clause stand part.

Stephen Kinnock: I have spoken at some length about the Opposition's concerns about the provisions in clauses 62 and 63 to authorise third-party trust or corporate service providers—or authorised corporate service providers, as they are described in the Bill—to carry out ID checks on the Government's behalf. Amendments 108, 109 and 110 to 112 would simply remove those provisions from the Bill in the hope of prompting a rethink by the Government.

I should like to explain the thinking behind the amendments tabled by me and my hon. Friend the Member for Feltham and Heston. The purpose of amendment 107 goes back to what I have said about the surprising lack of specific details on the proposed verification process. As I have said, it is not as though the Government have not had enough time to think through what procedures might be necessary; four consultations have already taken place on the topic. Amendment 107 would incorporate into the Bill requirements for some form of official identification, including photo ID, to be submitted to the registrar. That should not be controversial. In fact, the amendment would merely reflect international best practice guidelines, including those published by the Financial Action Task Force, the IMF and the World Bank, among others, and the commitments made in the Government's own White Paper.

Dame Margaret Hodge: It is a pleasure to rise to speak under your chairmanship, Mr Robertson, and I do so to speak to amendment 78. The amendment is part of a batch of amendments that we will get to later. I hope that hon. Members will bear with me if I speak longer on amendment 78, so that amendments 79, 82 and 83 will not require a long explanation.

This is one of the most important series of amendments that we have placed before the Committee. The purpose is to ensure that we close any loopholes, so that we do not find ourselves back in debate in a couple of years' time, bemoaning the fact that we failed to create watertight legislation and that we do not have the information and data that we need to hold businesses to account.

I stress that our aim is not to be bureaucratic. The last thing anybody wants is bureaucratic regulation. However, if we do not have effective, smart regulation, we will not achieve the objective, which is shared across the House, of bearing down on illicit finance and on the abuse of our corporate structure system by ne'er-do-wells. Today, we are paying the price of those who came before us, from both political parties, who thought that by simply deregulating the whole of the financial services sector, they would encourage growth in the economy. They did encourage growth, but they also made us a destination of choice for too much illicit finance. That has come into focus with the war in Ukraine and the role of Russians in bringing their financing here. That money is used to fund Putin and his allies in the attack on Ukraine.

The Government have decided to outsource responsibility for checking the unique identification of beneficial owners. I can see why they have done so. It is quicker to do it that way than to build up the necessary resources in Companies House. Like my hon. Friend the Member for Aberavon, I would have had more confidence if we had done it in house, but that was the Government's decision. The purpose of my amendment is not to challenge that decision. However, we need to trust the

corporate service providers. We need to trust both the professionals and the others involved, whether they are lawyers or accountants, to do the job properly and honestly. At present, confidence and trust are not there.

I thought that the Government were on the same page on this issue. From all the leaks, and from all the information and intelligence about how illicit wealth from all the kleptocracies has reached our shores, I thought that they understood the role played by the TCSPs. I thought they understood the role that the TCSPs play, and therefore shared our concern that we need to get that regulatory framework right before we unleash a new system that, if it is not right, could lead to us peopling the new Companies House register with dud information that we do not want.

4.15 pm

In that context, it is worth reminding Members of what that data is about, beginning with a 2017 Europol report. That report found that a very high proportion of suspicious transaction reports where people spotted possible money laundering in the EU involved UK companies—so, Europol found that our corporate structures made us one of the jurisdictions at the heart of money laundering. I think I am right in saying that the firm at the heart of the Paradise papers, Appleby, is a UK-headquartered legal firm. That firm was criticised for its flawed compliance with procedures in 12 confidential audits by authorities in the British Virgin Islands, Bermuda, the Cayman Islands, the Isle of Man—all tax havens. Even those jurisdictions—secrecy jurisdictions that had opened themselves to illicit finance—felt that the way in which that law firm administered its due diligence was utterly flawed.

In August 2014, one partner—this only came out in the Paradise papers—warned colleagues that they were in danger of getting

"carried away with fee-earning potential"

and went on to say that at the end of the day, if it all went wrong, the firm would

"be left holding the 'steaming turd'".

I apologise if that is unparliamentary, but I thought it was worth putting in. In 2013, the Bermuda Monetary Authority recommended changes to tighten up Appleby's approach to money laundering and terrorist finance, but the company ignored that. In 2014, there was a further report, and in 2015, the firm was fined for persistent failures and deficiencies. In November 2015—the end of 2015, which is the last date for which I have information—Appleby still had 167 files for which it had not carried out its proper duties, both anti-money laundering and anti-terrorism.

The FinCEN files, which were mentioned in the Committee's first session, showed that 3,267 UK shell companies—more than any other jurisdiction—had been established by company service providers and other professionals through that flawed process. To give just some examples of the people involved, one single corporate service provider had set up 385 of the companies named in the FinCEN files. Nine of the companies named had set up companies that were linked with £4.1 billion of so-called missing money. One address, which I mentioned the other day—175 Darkes Lane, Potters Bar—was home to more than a thousand companies. Nine agencies in the Baltics, not in the UK, had set up 2,447 UK-registered companies; the Bill will not stop that from happening. Those companies may not all have been set up for a bad purpose, but many will have been.

Then there is the recent research by Transparency International, which I think has been sent to all members of the Committee. Using data collected from open-source research, it identified 1,628 limited liability partnerships here in the UK that had been used in various corruption and money laundering schemes over a 12-year period. It reckons that $730 billion of suspicious funds were moved though those schemes, which is probably an understatement. These are British-based companies, established by service trusts and corporate service providers that are badly controlled.

I want to look at some of the people involved. Let us take the lawyers first. We know that 60% of firms visited by the Solicitors Regulation Authority in 2020-21 failed to comply with duties to have adequate AML controls in place. The nine professional bodies responsible for supervising the sector for money laundering are engaging in low levels of enforcement, and are three times more likely to engage in what they call "quiet chats"—informal actions, we would say—with those breaching the rules than in issuing fines and public censures. The FCA, by contrast, takes much more formal action.

Some of the professional bodies are failing to impose any meaningful fines. The Council for Licensed Conveyancers imposed zero fines, despite finding that 62% of the firms it supervises—nearly two out of three—were non-compliant in 2019-20. The Law Society of Northern Ireland imposed just one fine of £1,750 during the same period, despite finding 228 cases of non-compliance.

The highest ever AML fine for a law firm by the regulatory authorities was of £232,500, to Mishcon de Reya. There is such inconsistency between supervisory and regulatory bodies. The fine would have been £5.4 million—20 times more—if it had been calculated using rules similar to those used by the FCA.

I am sorry I am going on, but I want to demonstrate the enormity of the problem that we are failing to grasp. I accept that TCSPs are only one group of professionals that operate in the field, as the Minister says, but they are key. There was a national risk assessment of TCSPs in 2020 and they were assessed as being of the highest risk for money laundering. Think of the role they play—they are the most important body. About half of the corporate entities that are established in the UK are through TCSPs. They are the very professionals to which the Bill proposes we should outsource some of our ID checks.

The supervision of TCSPs is essentially non-existent. It is an HMRC function, and it hardly carries out that function. TCSPs rarely see fines of more than £1,000. Only five of the 283 financial penalties given out by HMRC in 2021-22 were awarded to TCSPs. Assessment after assessment has demonstrated HMRC's failings in this regard, and the Minister knows that that is the case.

The Financial Action Task Force, the global money laundering standards-setting body, assessed that HMRC was not performing well and should improve. A statutory review by the Treasury highlighted that despite improvements following the 2018 FATF review, HMRC continues to suffer from a lack of appropriate AML policies, controls and procedures. As recently as 2018,

the former chief executive of HMRC, Sir Jon Thompson, for whom I had a very high regard—he was really good, and one of our better permanent secretaries—questioned whether its anti-money laundering duties were a bolt-on rather than a core part of its business.

Wherever we look, there is a complete lack of proper regulation and supervision of the professional bodies that are charged with setting up new companies, particularly TCSPs. I stress the point that more than 50% of corporations set up in the UK are set up by TCSPs. It is absolutely vital that we get supervision and regulation right. I know that the Government accept that point, and I know that is why they have set up a review. We have a crazy system in the UK, with 25 different anti-money laundering regulators, many of which are the trade bodies of the professions involved. There are a lot of problems with that system.

A 2021 review of bodies in the legal and accounting sector whose job it was to regulate and supervise found that 81%—eight out of 10, which is high—were not supervising members properly, half were not ensuring that members were taking timely action, and a third did not have separation between supervision and advocacy. Because they are trade bodies, they are constantly lobbying people like us to get what they want out of the system. They are supposed to do that as well as carrying out their supervisory role. I think there is a conflict, but that may be a bridge too far for us at the moment.

There are also people involved in setting up companies who fall through the net and are not supervised by anybody. I am thinking particularly about financial advisers. If one gets kicked out of the accountancy bodies, one can carry on practising, establishing companies and calling oneself a financial adviser.

Much as I would love to get on with this, I think it is incredibly dangerous for us to press the button and start the reforms. I desperately want unique identification, which is hugely important—I welcome it—but it is incredibly dangerous to put that in place when we cannot trust the professionals whose job it is to set up companies. It is for that reason that I tabled amendment 78. If the Minister can come back with a better system—

James Daly (Bury North) (Con): I refer to my entry in the Register of Members' Financial Interests as a practising solicitor and a partner in a firm of solicitors. The right hon. Lady has essentially said that everybody involved in the legal sector and financial advisers are potentially dishonest. They absolutely are not. The vast amount of people involved in the sector are honest, decent people who have a lot of regulation and try their damnedest to abide by all of it. The picture that the right hon. Lady paints is not correct.

Dame Margaret Hodge: That is not what I said. The hon. Gentleman may have chosen to interpret it that way—

James Daly: You said we cannot trust people in the sector.

Dame Margaret Hodge: No, I did not. I said that none of the professions has sufficient supervisory or regulatory capabilities, policies or practices in place to pull out the bad apples. I have nowhere ever stated that that applies to everyone, but I hope the hon. Gentleman agrees that the extent of people setting up shell companies —we are talking largely about shell companies—as vehicles to move illicit finance, whether through drugs, kleptocrats or people trafficking, is shocking.

Let me tell the hon. Gentleman my most egregious story, which has been mentioned—the Savaro story. We had this terrible explosion in Lebanon, with hundreds of people killed and lots of property destroyed. We were told that it was fertiliser held in the warehouse that was going to Mozambique. A couple of months after the explosion, I was rung up by a Reuters journalist with whom I have worked down the years, who said, "Did you know it was a UK limited company—Savaro Ltd?" He went on to say that not only was it a UK limited company, but, interestingly enough, it had told HMRC it was dormant, so it had not filled in its tax returns. It was registered in the name of a company service provider, a woman who lived in Cyprus. There were two lies in the system: a lie about the company service provider, and lying to HMRC.

I gave the usual quote and was then overwhelmed by people from Lebanon contacting me, including the Bar Association, all of whom were trying to find out the origins of what had happened. It then emerged that three Ukrainian Syrians—this was before the Ukrainian war—were the real owners. There was no way the fertiliser was going to be used in Mozambique; it was going to Assad to drop as barrel bombs on the civilian population of Syria. That is the sort of shocking outcome that comes from lack of proper regulatory control.

4.30 pm

Of course, it is not everybody; there are thousands of legitimate companies founded every day. However, if we do not pull out the bad apples and have a smart regulatory system in place, we will bring all the professions and the UK financial sector into disrepute, and that will not be good for the UK economy over the longer term. I apologise that I will not talk to the other amendments for very long, because they all flow from amendment 78.

It is in that spirit that I say to the Minister that if he does not like the way we have proposed the measure, he should come back with another way. For heaven's sake do not go ahead with the current lack of supervision and regulation of those who will be responsible for filling out the register and founding companies.

Kevin Hollinrake: I will deal first with amendment 78, tabled by the right hon. Member for Barking. As she knows, it would place a restriction on the permitted ID verification processes set out elsewhere in the Bill. It would allow a person such as a company director or beneficial owner seeking to verify their identity through an authorised corporate service provider to do so only once His Majesty's Treasury had completed its review of the AML supervisory regime and laid the report before Parliament. I think that if the right hon. Lady thinks about it, she will probably want to go further than that, based on her remarks. I think she wants to go ahead only once the AML regime is properly supervised generally, not just to the point where we have the report from the Treasury. We are potentially talking about getting some way down the line before we are in a situation where she would be happy with the regime.

I take on board many of the comments the right hon. Lady made. Parts of the regime are not operating as they should—I quite agree. We absolutely need to fix that. As with other amendments proposed today, I am sympathetic to the intention; however, I think that there better ways to do it.

The practical effect of the amendment would be to place a temporary restriction on the functions that legitimate businesses may carry out. That restriction is unrelated to and may be unaffected by the publication of the review to which it is linked. It is anomalous and unfair that those businesses affected will still be subject to their current regulatory obligations to carry out ID checks. However, they will be prevented from making a statement reporting to Companies House that such checks have taken place, effectively delaying the whole regime. I also draw attention to the impact of the right hon. Lady's amendment on those people who use agents to manage their interests. I accept that some are shady characters, but, as my hon. Friend the Member for Bury North stated, the overwhelming majority are not.

Alison Thewliss: The Home Office report, "National risk assessment of money laundering and terrorist financing 2020," states:

"Company formation and related professional services are therefore a key enabler or gatekeeper of"

trade-based money laundering activity. Should that not raise more concerns for the Minister?

Kevin Hollinrake: The hon. Lady is mixing up two different things. I am not saying that some company formation agents are not shady—I have just said that. However, not all service providers are company formation agents. Many are bona fide solicitors or accountants that are household names. I think we need to keep this in perspective. The hon. Lady cites statistics on the capability of some of the sector in terms of proper supervision. According to OPBAS, 50% of professional body supervisors were "fully effective". I think that figure should be much higher, but in its opinion 50% are fully effective, so it is not as if there are not some actors in this area that are doing the job absolutely right.

Many company directors and people with significant control that are currently registered at Companies House, all of whom will need to verify their identity under the transitional provisions post enactment, would prefer to do so by using their professional adviser. They will suddenly find that their long-established legal adviser is deemed fit by the Government to verify their identity for money laundering purposes, but unfit to report that to Companies House. The amendment would therefore create considerable inconvenience to individuals, as well as to corporate service providers.

I can assure the right hon. Member for Barking and the Committee that I will urge my counterparts at the Treasury to bring forward their consultation as quickly as officials can ready it. I also point to the powers in the Bill that will enable the registrar to keep an audit trail of the activity of agents to support the work of supervisors both immediately and following any changes from the Treasury's review. I hope my explanation has provided reassurance.

Let me touch on one or two of the right hon. Lady's other comments. On the light-touch financial services regulation that I think she was suggesting was responsible for the global financial crisis, this is not deregulation. This is the opposite of deregulation; we are making regulations about the verification of ID. I would also point to the penalties for wrongdoing. In certain circumstances, if someone is found guilty of the aggravated offence of false filing under these rules—I think some of the examples she gave would constitute that—the sanction would be two years in jail. That is not for fraud, but for the false filing. There are real teeth to this legislation, which will reduce the likelihood of this stuff happening in future.

The right hon. Lady's amendment would effectively delay the whole regime we are talking about. She talks about Transparency International. As I said earlier, TI welcomes the reforms to the operation of Companies House that will effectively help to prevent money launderers from abusing the UK's system. We need to ensure that this happens as effectively as possible. I agree with many of the concerns that she raises, but it is wrong to delay implementation as she suggests.

I turn to amendments 107 to 112. I thank hon. Members for their contributions. The procedure for ID verification, including the evidence required, will be set out in secondary legislation under the powers in new section 1110B of the Companies Act 2006 inserted by clause 62 of the Bill. The regulations will set out the technical detail of ID verification procedures, which will reflect evolving industry standards and technological developments. The regulations can specify the process of ID verification and the evidence of identity that individuals will be required to provide when verifying their identity with the registrar. The amendments, particularly amendment 107, would limit the documents acceptable for the purposes of ID verification to photographic IDs issued by Government agencies and identity documents issued by a recognised official authority. That would exclude individuals who do not have a photo ID, such as a passport, from verifying their identity.

Stephen Kinnock: It is absolutely clear that our amendment 107 uses the words "to include". We are not limiting anything. The amendment sets out what the minimum should be. Surely the Minister agrees that an identity document with a photograph of the individual's face and an identity document issued by a recognised official authority should be the bare minimum we would want in the Bill.

Kevin Hollinrake: Under the cross-Government identity proving framework in "Good Practice Guide 45"—GPG 45—a combination of non-photographic documents, including Government, financial and social history documents, can be accepted to achieve a medium-level assurance of identity. That includes birth certificates, marriage certificates and recent utility bills. The framework, which also recognises ID documentation from authoritative sources, such as the financial sector or local authorities, is routinely used to build a picture of identity. Restricting that process by defining a recognised authority as a Department or agency could therefore inadvertently disenfranchise individuals from meeting ID verification requirements. I take the hon. Member's point that the amendment seeks to include certain forms of ID, but it might not serve the purpose that he thinks it would.

Seema Malhotra: I understand what the Minister says in relation to GPG 45. I wonder whether he has considered that, in circumstances where an identity document with

[Seema Malhotra]

a photograph of the individual's face may not be available, for whatever reason, in some way having a photograph of the person's face is the most important thing. Is that something he has considered as part of verification checks?

Kevin Hollinrake: All these matters need to be considered in the round when we come to the further details of ID verification. I was simply pointing out some of the shortcomings of the amendment.

In certain circumstances, non-photographic verification should also be available, to ensure that the Companies House service meets digital inclusion drivers and accessibility requirements, as set out in the Department for Digital, Culture, Media and Sport digital identity and attributes trust framework. The Companies House service must also adhere to the public sector equality duty.

The ability to verify using a range of documentation will maximise the number of service users able to verify digitally or at all. Not having that route would prospectively drive users toward assisted digital or non-digital routes, resulting in additional burden, an impact on ease of doing business, and increased cost and resource. It would also lead to far higher rejection rates, impacting company incorporations and appointments. As I said, the vast majority of companies are law-abiding, and it is disproportionate to put this burden on them.

I turn to the amendments that seek to remove parts of clause 62. Again, I have sympathy with my colleagues who are concerned about the effectiveness of the AML regime. Indeed, the measures in the Bill requiring corporate service providers to register with Companies House are intended to support the AML regime—a point raised earlier by the right hon. Member for Barking. There is a requirement for corporate service providers to register with Companies House as well as an AML supervisor. We will know who corporate service providers are registered with, and we will be able to provide their supervisors with information that will enable them to do their job more effectively. Where corporate service providers fail to act effectively, the registrar will be able to suspend or de-authorise them.

The practical effect of the amendments would be to limit verification pathways to the registrar only, preventing verification by the AML regulated sector from being acceptable for the purposes of ID verification under the Companies Act. That is unnecessary, and it would come at the expense of people and businesses conducting their activities entirely legitimately.

About half of company formations are currently submitted by third parties, very many of which take their responsibilities seriously and are highly diligent in conducting ID verification checks. They include high street accountants, regional legal firms servicing small businesses, and so on. I am concerned that preventing third parties from being able to register with Companies House and verify identities would have disproportionate consequences for those entities, possibly driving business away from them. That effect would be particularly acute where ID verification is taken as a package with company formation and other services. It is not clear how the amendments would affect the ability of corporate service providers to deliver documents on behalf of their clients if they are not required to be authorised, for example if they represent limited partnerships.

Many company directors and people with significant control currently registered at Companies House, all of whom will need to verify their ID under the transitional provisions post enactment, would prefer to do so by using their professional adviser. They would suddenly find that their long-established legal adviser was deemed fit by the Government to verify their ID for money laundering purposes under the money laundering regulations but unfit to do so under the Companies Act. The amendments would therefore create considerable disruption for individuals as well as corporate service providers. I hope that my explanation has provided reassurance and that hon. Members will consider withdrawing their amendments.

I have already described the new powers provided by clause 62. Beyond that, it is important to note that the regulations provided for by the clause can also specify the records that authorised corporate service providers will be required to keep in connection with the verification or reverification of identity. Those record-keeping obligations on authorised corporate service providers can be enforced through offences for non-compliance. Additionally, the Secretary of State can confer, by regulation, discretion on the registrar about when an individual's identity ceases to be verified. The individual will then be required to re-verify their identity. Finally, regulations under the new sections introduced by the clause will be subject to the affirmative resolution procedure.

4.45 pm

Stephen Kinnock: I have nothing further to add on this point.

The Chair: Do you wish to press the amendment?

Stephen Kinnock: No. I have made clear to the Minister that we are deeply unhappy, particularly with the failure to take on board the recommendations under amendment 107 and the very important points my right hon. Friend the Member for Barking made.

Dame Margaret Hodge: Similarly, I will take the matter up elsewhere during the course of the Bill.

Stephen Kinnock: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 62 ordered to stand part of the Bill.

Clause 63

Authorisation of corporate service providers

Dame Margaret Hodge: I beg to move amendment 81, in clause 63, page 49, line 38, at end insert—

"(3A) When an application is made under this section, the registrar may request evidence from HMRC that a fit and proper person test has been carried out on the applicant."

This amendment allows the registrar to request evidence from HMRC that a fit and proper person test has been carried out on a person applying to be an authorised corporate service provider.

The Chair: With this it will be convenient to discuss the following:

Amendment 82, in clause 63, page 49, line 45, at end insert—

"(ba) the registrar is satisfied—

(i) that HMRC has carried out a fit and proper person test on the applicant, and

(ii) that the applicant has met the requirement of the fit and proper person test, and".

This amendment would mean that the registrar could only grant an application to become an authorised corporate service provider if satisfied that an applicant had passed HMRC's fit and proper person test.

Government amendment 8.

Amendment 79, in clause 63, page 52, leave out from line 42 to line 28 on page 53, and insert—

"1098G Duty to provide information

(1) The registrar must carry out a risk assessment in relation to any authorised corporate service provider to establish whether the verification of identity by the authorised corporate service provider is likely to give rise to a risk of economic crime.

(2) If the risk assessment identifies a real risk of economic crime, the registrar may—

(a) require an authorised corporate service provider to provide information to the registrar; or

(b) require a person who ceases to be an authorised corporate service provider by virtue of section 1098F—

(i) to notify the registrar;

(ii) to provide the registrar with such information relating to the circumstances by virtue of which the person so ceased as may be requested by the registrar.

(3) The registrar may require information to be provided on request, on the occurrence of an event or at regular intervals.

(4) The circumstances that may be specified under section 1098F(2) or 1098G(1) (ceasing to be an authorised corporate service provider and suspension) include failure to comply with a requirement under subsection (1)(a).

(5) A person who fails to comply with a requirement to provide information under this section commits an offence.

(6) An offence under this section is punishable on summary conviction by—

(a) in England and Wales a fine;

(b) in Scotland and Northern Ireland a fine not exceeding level 5 on the standard scale and, for continued contravention, a daily default fine not exceeding one-tenth of level 5 on the standard scale."

This amendment would give the registrar the power to require information from an authorised corporate service provider. This would replace the current provision in the Bill giving the Secretary of State a power to make regulations requiring the provision of such information.

Dame Margaret Hodge: I will speak very briefly. It would be nice if the Minister could agree to the amendments, which are simply there to tighten up the oversight of the bodies. Amendments 81 and 82 are connected, and would force HMRC to do what it is not currently doing and carry out proper checks on the TCSPs and monitor them properly. Amendment 79 gives the registrar the power to require information. At the moment, as I read the Bill, there is no power for the registrar to challenge any of the information provided to her by any corporate service provider.

Kevin Hollinrake: I thank the right hon. Lady for her contribution. Clause 63 introduces a requirement for third party agents who wish to provide corporate services to clients, such as incorporating companies and filing documents on their behalf, to be registered with Companies House as authorised corporate service providers. ACSPs will be required to be supervised for the purposes of the money laundering requirements at all times and to notify the registrar of any changes to supervision.

I understand and am sympathetic to the intention behind amendments 81 and 82. They are driven by concern that the UK's AML supervisory regime is not as robust as it could be. The Government recognise that, as do I. It is being addressed by my colleagues at the Treasury, who are responsible for the supervisory regime. I am afraid, however, that the amendments would duplicate some of the regulatory obligations of HMRC, the default supervisor for corporate service providers, by adding to the role of the registrar of companies. Their effect would be to make an agency of my Department responsible for overseeing activities of another Department. Not only is that duplicative, but it is wrong for one branch of Government to mark the homework of another branch. The most efficient means to address any issues with the quality of supervision is to tackle them at source, which is work that HM Treasury is undertaking on supervisory reform. I hope I have provided clarity on why the amendments are not needed.

On amendment 79, I understand the right hon. Lady's concerns, but I consider the amendment to be unnecessary. As I have set out, under the measures in the Bill corporate service providers will need to confirm they are supervised for the purposes of the money laundering regulations, register with the registrar and, in the case of an individual, have their identity verified before they are allowed to form companies or registerable partnerships or to file on their behalf. The ID verification checks undertaken by those providers will achieve the same level of assurance of the claimed identity as those undertaken through the direct verification route.

Dame Margaret Hodge: I am grateful to the Minister for giving way. Yes or no: will Companies House be able to challenge at any point information given to it by a TCSP—an authorised provider?

Kevin Hollinrake: As I understand it, yes, Companies House will have the rights and powers to do that, though we do not at this point know to what extent it will do so. The right hon. Lady spoke in a previous debate about spot checks. It would seem sensible to take that kind of risk-based approach. Certainly, an AML supervisor would have that ability as well.

Providers will be required to declare that they have completed all the necessary identification checks when they interact with the registrar. Under money laundering regulations, all agents are required to retain records, and the registrar can request further information and ID verification checks if necessary, which I think answers the question that the right hon. Lady just asked. The agent will be committing an offence if they fail to carry out the ID checks to the required standards, or at all.

Under the Bill, proposed new sections 1098F and 1098G of the Companies Act 2006, as introduced by clause 63, will enable the registrar to suspended and deauthorise an authorised corporate service provider. The Bill will allow the registrar to maintain an audit trail of agent activity and to share it with supervisors. That will serve as a prompt to supervisors to up their game. I hope that that explanation has further clarified why the amendments are not needed.

Dame Margaret Hodge: I will look in detail later to ensure that what I asked for is there, but I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 8, in clause 63, page 50, line 23, leave out "registered or".—*(Kevin Hollinrake.)*

This amendment would mean that a firm applying to become an authorised corporate service provider would always have to state its principal office, rather than having the option of stating its registered office.

Stephen Kinnock: I beg to move amendment 98, in clause 63, page 53, leave out from line 29 to line 5 on page 54.

This amendment removes the provision enabling the authorisation of foreign corporate service providers.

The Chair: With this it will be convenient to discuss the following:

Amendment 99, in clause 63, page 53, line 37, leave out from "that" to "similar" and insert,

"has been assessed by the National Crime agency as having".

This amendment would ensure that the judgement as to whether foreign jurisdictions have similar regulatory regimes would be in the remit of the National Crime Agency, rather than in the view of the Secretary of State.

Amendment 100, in clause 63, page 53, line 40, at end insert—

"(2A) No person who is subject to a relevant regulatory regime under the law of a territory outside the United Kingdom may become an authorised corporate service provider if there is evidence that they have been disqualified from acting as a corporate service provider in any other jurisdiction".

This amendment ensures no corporate service provider based outside the United Kingdom can become an Authorised Corporate Service Provider if there is evidence that they have been disqualified from acting as a corporate service provider abroad.

Stephen Kinnock: Once again, I find myself somewhat baffled by what the Government are trying to get into the Bill. The provisions set out under clause 63 in proposed new section 1098I of the Companies Act 2006 would enable the Secretary of State to allow foreign corporate service providers to operate in the UK, outside the scope of the UK's money laundering regulations. There has been such extensive coverage in recent years of the risks that that would entail that I am really quite amazed that this needs to be reiterated yet again, but, in a nutshell, any UK laws attempting to regulate the activities of company formation agents, some of which have been responsible for the most flagrant examples of money laundering and sanctions evasion according to recent reports, could well be rendered essentially meaningless by these few clauses.

I say that because, if enacted as drafted, the clauses would appear to hand the Secretary of State a blanket power to disapply the money laundering regulations to foreign agents, on no one's authority but his or her own. We need not look too far for examples of how profoundly damaging that could be to our own laws, given how significant the divergences often are between anti-money laundering regimes in countries such as the UK, and those in overseas jurisdictions better known for their corporate secrecy than anything else. In fact, we need look no further than the UK's own overseas territories and Crown dependencies.

Any Member who is either unaware of or in denial about the scale of the problem would be well advised to read an enlightening, although also alarming, article published by *Forbes* on 9 March 2022. It had the somewhat provocative title of "Evading Sanctions: A How-To Guide For Russian Billionaires". The piece documented the use of opaque offshore corporate structures to launder literally billions-worth of assets held by Russian oligarchs in the last few months and years. What is most troubling about the account is that most of the jurisdictions that it specifically mentions as hotbeds of money laundering and sanctions evasion are UK-linked territories. It will surprise nobody that the list includes the Isle of Man, the British Virgin Islands and the Cayman Islands—in other words, the usual suspects.

I do not wish to dwell too long on the overseas territories, because I am sure there will be further discussions in the Committee when we come to debate later sections of the Bill. The point the Opposition are trying to make is simply that if we are going to allow businesses of any kind to operate in the UK, we should expect them to abide by our laws. If we start letting them off the hook, for reasons that Ministers have entirely failed to make clear, we are complicit in their actions. In short, the proposed new section 1098I would have us trust in the infinite wisdom of the Secretary of State to allow corporate service providers to operate outside the law, on the basis that those powers would be used only in cases where the relevant overseas jurisdiction has a regulatory framework with "similar objectives" to the UK's own rules.

I frankly do not trust the wisdom of the Secretary of State to use those powers for good. I do not believe that it is at all appropriate for such sweeping, ill-defined powers to be conferred on the present or any other Secretary of State. Although amendments 99 and 100 are probing amendments that give us the opportunity to seek answers from the Minister on these extraordinary provisions, amendment 98 is intended quite simply to remove the powers from the Bill.

Kevin Hollinrake: Once more, I am sympathetic to the aims of the amendments. They are driven by concerns that AML supervisory regimes outside the UK may not be robust. That is why the Government are specifying that authorised corporate service providers must be subject to the UK's AML regime. Nevertheless, it is possible that in the future the UK may become a party to an agreement—a trade agreement, for example—that would require it to accept applications from abroad where that regime is equivalent to that of the UK. I do not think the example the hon. Gentleman gave of Russia would qualify in that regard.

The power in the Bill would facilitate such an agreement and remove the need for primary legislation to implement it. I draw Members' attention to the wording already in the Bill, in proposed new section 1098I(2), introduced by clause 63. The UK would only become a party to an agreement if it could be assured that the regime was no less effective than its own. To be confident of that parity, the Secretary of State would need to establish that a regime was the equivalent of the UK's by considering evidence and advice from a range of sources, including the National Crime Agency. That would include the consideration for whether prospective authorised corporate service providers are disqualified under the relevant legislation.

As the legislation makes clear, the power would be subject to the affirmative resolution procedure and parliamentary scrutiny. While I understand any concerns expressed, I hope that Members will withdraw the amendment.

Stephen Kinnock: I thank the Minister for his response. As with the previous debate, I am not particularly happy with the position, and we will look for opportunities to return to the issue during the further passage of the Bill. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Clause 63, as amended, ordered to stand part of the Bill.

Clause 64

GENERAL EXEMPTIONS FROM IDENTITY VERIFICATION: SUPPLEMENTARY

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: We debated the clause at length in the previous groupings. I do not propose to repeat the arguments, and I hope the Committee agree with the Government's position.

Stephen Kinnock: We have no further comments to add on clause 64.

Question put and agreed to.

Clause 64 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

5 pm

Adjourned till Tuesday 8 November at twenty-five minutes past Nine o'clock.