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.

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Ninth Sitting

Tuesday 8 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 12 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 8 November 2022

(Morning)

[Hannah Bardell *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

The Chair: Before we begin, I have a few preliminary reminders for the Committee. Please switch electronic devices to silent. No food or drink is permitted except the water provided.

Clause 65

Exemption from identity verification: national security grounds

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 9, in clause 65, page 55, line 3, at end insert

"and section 167M(2) does not impose any obligation on a company in relation to the person".

This amendment ensures that where a company director is exempt on national security grounds etc from being a person whose ID is verified, the company can also be relieved from the obligation to ensure that the director is ID verified.

The Chair: With this it will be convenient to discuss amendment 101, in clause 65, page 55, line 22, at end insert—

"(4) The Secretary of State must report any use of the identity verification exemption on national security grounds as provided for by this section to the Intelligence and Security Committee of Parliament. Each report—

(a) made under subsection (4) must include the name of the person and company exempt from identity verification.

(b) must include the Secretary of State's reason for granting exemption on national security grounds."

This amendment would place a requirement on the Secretary of State to report any use of the identity verification exemption on national security grounds to the Intelligence and Security Committee.

Kevin Hollinrake: It is a pleasure to serve with you in the Chair, Ms Bardell.

Amendment 9 is a technical amendment. Clause 65 enables the Secretary of State to exempt a person from identity verification requirements by written notice, if necessary in the interests of national security or to prevent or detect serious crime. The consequence of someone being subject to such a written notice is that they will not be obliged to observe certain rules. For example, an unverified individual benefiting from an exemption will not need to refrain from acting as a director and will not be liable for an offence for acting as such.

The amendment clarifies that companies whose directors are exempt from the prohibition to act when unverified are relieved of their duty to ensure that such a director has their identity verified. Therefore, they will not be criminally liable for failing to comply with that duty in relation to the exempted person. Relieving companies of the duty meets the original policy intention and is a logical consequence of the exemption granted to individuals on these grounds. I hope that my explanation has provided further clarity on why that is needed.

On amendment 101, any proposed use of the national security exemption in clause 65 will be carefully considered by the Secretary of State. A duty to report to Parliament's Intelligence and Security Committee on the use of that exemption is unnecessary. The ISC's oversight functions are clearly set out in the Justice and Security Act 2013 and the accompanying memorandum of understanding. It is inappropriate to include a specific oversight role for the ISC in relation to the deployment of this exemption. The amendment is therefore not necessary, and I ask hon. Members not to press it.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Ms Bardell. I thank the Minister for his opening remarks. I recognise that clause 65 gives the Secretary of State the power to provide written notice to exempt someone from identity requirements if necessary in the interests of national security or for preventing or detecting crime. The Opposition recognises the importance of protecting national security, but the Minister will know from previous debates that we seek greater clarity about where exemptions may be granted, and the transparency and accountability around the use of those powers. The Government have tabled amendment 9, which is consequential to clause 65. If the clause is agreed to, the amendment makes sense.

Amendment 101, which my hon. Friend the Member for Aberavon and I tabled, comes back to scrutiny of the use of the exemption powers. I will probably say a few times today that the title of the Bill includes is the Economic Crime and Corporate Transparency Bill. Where there are questions about a potential lack of or reduced transparency and possible serious impacts, there should be accountability, even from the Secretary of State. We live in a democracy where the Government should be and are accountable for actions of the Secretary of State.

The amendment simply states that there should be a process by which any use of the identity verification exemption on national security grounds provided by the clause should be subject to some scrutiny. The Minister may have better ideas on how to deal with that question if the Intelligence and Security Committee is not the right place. We have used the ISC because it is a parliamentary Committee that deals with national security matters, is on Privy Council terms, and will have the confidence of Parliament and the Government in reviewing these matters and raising any questions. All the amendment does is provide scrutiny for the exemption process by referring a report to the Intelligence and Security Committee, which ensures that the information remains privileged and not publicly accessible. If the Minister is, as he intimated, unable to support the amendment, I urge him to give us confidence about how he would provide assurances.

Kevin Hollinrake: Perhaps I could give the hon. Lady some examples of the kinds of individuals the exemption might apply to. We expect the exemption to be used on very rare occasions, for individuals including, but not limited to, those working for the UK intelligence community or law enforcement agencies. She should bear in mind that the Secretary of State is introducing the provisions. I hope that she will be reassured that the powers will be used sparingly but wisely.

Seema Malhotra: I thank the Minister for his intervention. The issue is not what we assume and hope might happen, but having some checks and balances on the use of powers. It is part of our responsibility on the Committee to think that through.

Dame Margaret Hodge (Barking) (Lab): That is always the case. Perhaps the Minister will reflect that Usmanov was a case in point. He exploited an exemption to hide some of the information around his ownership. It is worth all of us reflecting on that. Obviously the provision has to be there for good people, but it may become yet another opportunity for bad people. The Usmanov case was a classic one. I think Fedotov was another, if my memory serves me right. Apologies if I have this wrong, but Fedotov was another one who managed to get an exemption in some way. If these things are not done properly, and are not then properly monitored, they can go wrong.

Seema Malhotra: I thank my right hon. Friend for highlighting an important case in point.

Kevin Hollinrake: May I speak to that case very quickly? The Usmanov case was entirely different. A Secretary of State did not introduce legislation providing for a Russian oligarch to move, in that case, billions of pounds-worth of assets to his sister, I think. What we are talking about here is the Secretary of State using a power to remove somebody whose identity is sensitive from a public register—not allowing an oligarch to subvert the regulations.

Seema Malhotra: I thank the Minister for his intervention.

Dame Margaret Hodge: I think the Minister is right about Usmanov, but on Fedotov I think it was something different. I cannot quite remember the details, but he managed to use an exemption to hide his identity. We raised it last week, and I think that officials were going to come back with a response. They may not have had time to read the letter yet, but that is more the case that one would think of.

The Chair: Order. For the benefit of those following our proceedings, I remind Members of the flow of debate: the Minister will respond to the shadow spokesperson, and the right hon. Member for Barking will have an opportunity to intervene on him then.

Seema Malhotra: Thank you, Ms Bardell. I thank my right hon. Friend for her intervention. To wrap up my remarks on this point, the Minister makes a valid point in relation to the types of cases and the circumstances under which people might be given exemptions, identified on national security grounds. My right hon. Friend makes a good point as well about where things might come through the system inadvertently. That is partly why we have checks and balances.

I take the Minister's point about individuals who may be working for the intelligence and security community, but he could give us some reassurance by saying that every single Secretary of State in whose hands this power lies in future will consider every case carefully so we need have no cause for concern about that, given the transparency and accountability. We set up systems such that there are ways in which the decisions of Secretaries of State and Ministers have controls, checks and balances around them.

In circumstances in which a Secretary of State might say that a name is too secret to divulge, even knowing whether there has been use of the power—the number of times used and the categories for which it has been used—could still be important information. For example, what if suddenly in future the Secretary of State was determining 10 a month—I am not saying that they would? The Minister and I have no idea who the Secretary of State might be in five or 10 years' time, so we have no idea whether there might be an abuse of the power. However, sometimes even having the number can be a red flag, because ordinarily we might expect one every three months, so why do we have five a month coming through?

There are therefore ways in which we can have such controls without putting someone's identity or security—or the nation's security—at risk. Having some controls over those powers is a big and important theme of the report. I ask the Minister to consider that and to say: "Look, we will consider whether we can have, without it being too onerous a job, some mechanism for controls and reporting on use of the powers, such as through Privy Council routes." I would then be happy not to press my amendment.

Kevin Hollinrake: I am happy to reflect on that and have further discussion. As the hon. Lady and other Members know, I am keen for Parliament to have scrutiny of any measures that we introduce. We will take it away to consider.

Seema Malhotra: I appreciate the opportunity. I therefore will not press amendment 10.

Amendment 9 agreed to.

Clause 65, as amended, ordered to stand part of the Bill.

Clause 66

Allocation of unique identifiers

Seema Malhotra: I beg to move amendment 102, in clause 66, page 55, line 36, leave out "power" and insert "a duty".

This amendment would ensure that all directors would be issued with a unique director identifier to be used for all their directorships regardless of whether they or an ACSP form the company.

The Chair: With this it will be convenient to discuss amendment 103, in clause 66, page 55, line 37, at end insert—

"which the registrar must make publicly available on the registrar's website".

This amendment would make all unique director identifiers available on the registrar's website.

Seema Malhotra: The clause expands the existing powers of the Secretary of State to allocate individuals who have had their identity verified with unique identifiers, which are reference numbers used by the registrar to help to identify people. That is of course a welcome step but, following an earlier debate in Committee, there are three key issues that we touched on which I want to explore further: can we have confirmation, first, that each director will have a unique identifier; secondly, that that will be public, whether published as it is or in proxy form, so something is searchable as a unique identifier published for a director; and, thirdly, that all directorships for one person will be searchable under their unique ID?

Amendments 102 and 103 were tabled by my hon. Friend the Member for Aberavon and me. We first made reference to them in the debate on the SNP's amendments 68 to 70 to schedule 2. Our amendments would amend clause 66. Amendment 102 would ensure that all directors would be issued with a unique director identifier to be used for all their directorships, regardless of whether they or a member of the Association of Corporate Service Providers forms the company, and regardless of other factors. It explicitly seeks to amend the legislation to make it a duty to give a unique ID, not a power. It is possible that the drafting of my amendment does not fully do that, based on this being underlying legislation as well, but that is certainly our intention. The Minister has previously said that he expects that a unique identifier will be given to all directors for all their directorships, but I do not fully understand whether the Minister is guaranteeing that.

Amendment 103 would make those unique IDs publicly available on the registrar's website, allowing for greater transparency for the general public. Thom Townsend of Open Ownership said that we need 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."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 62, Q133.]

These amendments, I believe, do just what Mr Townsend recommends: provide unique identifiers, so that any investigation process can be much more straightforward.

I want to go into this issue a little further in light of the Minister's previous comments. Section 1082 of the Companies Act 2006 states:

"The Secretary of State may make provision for the use…of reference numbers ('unique identifiers')"

It is a power, rather than a duty, and the amendments to section 1082 of the Companies Act contained in clause 66 would not change that. The Minister has said that the SNP amendments that we previously debated

"will be redundant once the expanded power under section 1082 is exercised".—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 3 November 2022; c. 250.]

However, I cannot see where the Bill states that those amendments will effectively be redundant when it comes into force, so I would be grateful if he could come back on that point.

The explanatory notes say that the reason for unique identifiers not being publicly available is "to protect personal information" and to guard against

"the fraudulent use of unique identifiers."

None of us wants to see the fraudulent use of unique identifiers, and I do take that point, if the argument is about whether those specific unique identifiers are the only solution to this issue. Sometimes, it depends on how unique identifiers are used: if they are used as part of log-on information or something like that, you could argue that there is potential for fraudulent use, but they could also be identifiers that do not really pose any kind of security or other risk to personal information. What we need, if we cut all the way through this, is a reference that would allow someone to link already public information to a single individual.

If having a public unique identifier were a problem for any reason, depending on how the new Companies House systems are put together and what that unique identifier gives access to, there could be other, very easy ways to achieve the same result. I might suggest different options, such as a function allowing people to check what other offices someone held. That already exists on the Charity Commission website, for example, where we can look up trustees of a charity and see what other trusteeships they hold—the entries are linked, and that link is done for the reader. Companies House already seems to try to do that, but cannot do it properly because it does not have the data to link people who are directors of different companies. For example, that is why, as I think the hon. Member for Glasgow Central noted, she had one appointment that came up three times—or was it the other way around?

9.45 am

Alison Thewliss (Glasgow Central) (SNP): I exist three times.

Seema Malhotra: Right, her name is registered three times, rather than having one entry noting that she has three directorships. With identity verification and the issuance of unique identifiers, Companies House will know exactly how many directorships an individual has. Companies House may plan to update pages showing people's total directorships once it issues unique identifiers, but that certainly is not clear.

An alternative is to have some form of proxy ID, which is becoming increasingly common. That is a unique ID linked to the director's unique ID, which can keep the director's ID itself private, but has a unique public identifier that is searchable and uniquely linked to the underlying identifier. That happens increasingly for email addresses, for example, when someone may not want their email address to be public, so a pseudo or proxy address is created so that the one that someone might publicly enter and others might publicly see is not the underlying email address, but is uniquely linked to it. There are ways in which technology can be used simply and easily. That is not a high-cost option and it can be built in to have what we need for public purposes—a unique identifier for a director that links all their directorships, if published, and is searchable.

I hope that those constructive suggestions and the way we laid out our reply when the Minister asked in a previous debate what we were not fully happy with in clause 66 mean that things are perhaps clearer. I look forward to the Minister's response.

Alison Thewliss: I support the excellent amendments tabled by the hon. Member for Feltham and Heston. It is incredibly important that clarification is given through the register, for a number of reasons. A unique identifier that follows a person through their whole life as a company director is important. I mentioned before that I appear in the register three separate times. It would make sense for that to be consolidated in one entry so that people could see the course of that.

The identifier should go through all of the directorships that people have. We know—it has been raised previously in Committee—that some directors have many hundreds, or even thousands, of directorships to their name. It seems sensible to have clarity to ensure that they are the same person. A name such as mine is reasonably unusual—it is quite easy to find—but if a John Smith is on the register, it is much more difficult to establish that they are the right John Smith, the one who is the director of a company. Therefore the identifier becomes all the more important, particularly if that person changes their name. If Jane Smith becomes Jane Jones through marriage, it becomes more difficult to chase her through the register. It would therefore make sense, particularly for women, who are most likely to change their name, but also for other people who may change their names for a variety of reasons—perfectly honest ones, or, in some cases, to divert attention from their previous directorships, perhaps, or any previous misbehaviour—that that person's ID should follow them around. Anybody doing due diligence on that person as a director could then find them on the register quite easily.

That goes to the point made by my hon. Friend the Member for Paisley and Renfrewshire North about phoenixing. If a company director has been involved in many phoenix companies, it would make sense for people to know that, and to know that they might well carry out that behaviour in future. It would enhance the clarity of the register against such fraud and poor behaviour. The example that the hon. Member for Feltham and Heston gave, of the Charity Commission register, was a good and relevant one, because it is about somebody's appropriateness and that wider sense of understanding somebody's behaviour through the register.

It is very important to make the change from "power" to "duty". A person can have the power to do lots of things, but if they have no obligation to do them, that is quite a different scenario. Lots of the issues that the Companies House register has got itself into are down to those duties not having existed. It is important that those duties exist, and that we set them down in the Bill. I am not hugely confident that what we are talking about will happen if the duties and responsibilities are not set down in law. Future Ministers may decide not to bother with them. I am sure that the Minister would; future Ministers might not.

It is incredibly important that we do everything we can to make the Bill as tight as possible, and that we take all precautions against the abuse of the register. We must get rid of those abuses. We must make a better register, and better legislation, to ensure the integrity of the register in the future.

Kevin Hollinrake: I think that we are trying to achieve the same thing, just in different ways. We discussed this issue at length in previous sittings. Companies House is already actively working on unique identifiers. It is not credible to think that, having legislated for them, we will not implement them. A basic principle of the Bill is to be able properly to link individuals on the Companies House register, so that company directors have a better experience and so that it is easier for the public to identify the connection between directors, including persons of significant control, and companies.

Dame Margaret Hodge: I accept that great progress has been made in the Bill, but addresses and personal details are also important. We know the way in which addresses are exploited: people put 3,000 companies into one address. That is relevant information that Companies House needs to have.

Kevin Hollinrake: Addresses are not covered by the amendment, although we discussed the verification of addresses at length the other day. We think we have struck a fair balance in terms of a company address. The shadow Minister seems to be saying that she wants the unique identifier to be searchable; we think that the person's name should be public and searchable. I did not quite understand her point about people hiding their email addresses or names, and searching by unique identifier, rather than the other way around. We think that the searchable entity should be the person's name, and the Bill would then make it easier to see the connections between a director's name and the different companies with which that person is connected.

Seema Malhotra: The example was given of the number of John Smiths there might be. There might even be a number of Seema Malhotras, but I do not know that there are as many.

Kevin Hollinrake: There is only one.

Seema Malhotra: I think I found three. For the most part, the Minister's arguments are very strong, but he is on very weak ground here. Is he seriously saying that if someone genuinely wants to see Mr John Smith's directorships, they will have to spend three hours going through all the John Smiths? Would that be enough time to de-duplicate and link the right ones together? That is crazy. There is a much simpler solution. It would do the job, and bring us in line with other countries.

Kevin Hollinrake: I am not aware of the countries to which the hon. Lady refers. How would someone know the unique identifier so as to be able to search by that record? What someone will recognise is the name of the person, whether it is Usmanov or another name. That is likely to be the search term that people use, so we think that, for the public view, the most important link is the name. That would also have some implications in terms of potential fraud.

The unique identifier is there to do exactly what the hon. Lady and the hon. Member for Glasgow Central want it to do: it creates a connection behind the scenes, in Companies House, so that a simple search can reveal the connection between a person and all the different companies. That is how it works: we search by the names. We think that is the best way around. She wants to search by the unique identifier.

Seema Malhotra: May I kindly suggest that the Minister ask his officials more about how the unique IDs that are used in Australia, New Zealand and India are working, and whether there is something we might learn from them? If he has not been briefed on that already, it might be a useful step for him to take.

On the Minister's second point, he is absolutely right that we usually start with a name. We might start with "Mr Kevin Hollinrake, Thirsk and Malton", but we would then find his unique identifier and be able to use it to link him with the hundreds of other entries for Kevin Hollinrakes—perhaps some of them even live in Feltham and Heston—and see whether they are the same person.

If the Minister is unclear about what I referred to as a proxy identifier, I am happy to take that offline. It is a simple measure used for security reasons, and it is basically like having a "known as" name. Everyone might know the Minister by a nickname, but people will always be able to identify him, because the unique identifier is linked solely to the underlying email address or ID. It is not publicly the same, but it is uniquely linked, so that someone who uses one will access the data of the other.

Kevin Hollinrake: I am happy to look at the international examples that the hon. Lady mentions, and at the generic name issue. I think that is a fair point, and I have already asked officials to look at how that might work in the case of John Smith and the like. I have just done a quick search on one of my previous co-directors, Harry Hill, who has quite a generic name. If we put in "Harry Hill, Hunters, Companies House" it brings up the Harry Hill that is associated with me, not another Harry Hill. There are simple ways to make connections involving names such as John Smith. I will come back to the hon. Lady with an answer on that if I can.

We do not think that changing the power to a duty would have the desired effect of obliging people to have unique identifiers in the first place. That will be achieved by mandatory provisions including the regulations under the power contained in section 1082 of the Companies Act.

Seema Malhotra: I would appreciate it if the Minister came back to me on that point, because I am not clear that section 1082 of the Companies Act, as amended by the Bill, will achieve what he thinks it will. I want a clear answer about whether all directors will have a unique identifier under the new regime. That is question No. 1, and everything else follows from that.

Kevin Hollinrake: Yes, they will. That is exactly what the Bill provides. It is a mandatory provision, including the regulations under the power contained in section 1082 of the Companies Act. Those two things combined will ensure that Companies House provides a unique identifier for every company director and for every person of significant control. I think that is what the hon. Lady hopes to achieve.

Let me turn to amendment 103. Unique identifiers will be a tool to help Companies House to link an individual's verified identity across multiple roles and company associations. For example, if an individual is a director for company A and also a person with significant control for company B, Companies House will be able better to link those appointments using the unique identifier. The identifiers should not be made public, in our view. Their purpose is to allow the person who is assigned the identifier to communicate securely and privately with Companies House. Making the unique identifiers public would, in our view, compromise their use, because they could be appropriated and misused by anyone looking at the register, including potentially to commit identify fraud and other crimes. However, Companies House will be making changes to how members of the public view the register, enabled by unique identifiers, so it will be possible accurately to see connections between individuals and entities, including how many companies an individual is a director of, or how many companies a person has significant control over. On that basis, I hope hon. Members will withdraw their amendment.

10 am

Seema Malhotra: I thank the Minister for his remarks. The matter is so important that we will want to push the amendment to a vote. It may be that what the Minister has just said on Companies House's intentions resolves some of the issues in the end. What has been stated will happen, but we need to go further to be clear about when and how that will happen.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 7]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Crosbie, Virginia	Hunt, Jane
Daly, James	Mann, Scott
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Amendment proposed: 103, in clause 66, page 55, line 37, at end insert 'which the registrar must make publicly available on the registrar's website'.—*(Seema Malhotra.)*

This amendment would make all unique director identifiers available on the registrar's website.

Question put, That the amendment be made.

The Committee divided: Ayes 7, Noes 8.

Division No. 8]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Crosbie, Virginia	Hunt, Jane
Daly, James	Mann, Scott
Hollinrake, Kevin	Stevenson, Jane

Question accordingly negatived.

Clause 66 ordered to stand part of the Bill.

Clause 67

IDENTITY VERIFICATION: MATERIAL UNAVAILABLE FOR PUBLIC INSPECTION

Kevin Hollinrake: I beg to move amendment 10, in clause 67, page 56, line 3, after "subsection (1)" insert "—

(a) in the words before paragraph (a), after 'not' insert ', so far as it forms part of the register,';

(b) ".

This amendment spells out that section 1087 of the Companies Act 2006 is only concerned with information on the register of companies.

The Chair: With this it will be convenient to consider clause stand part.

Kevin Hollinrake: Clause 67 amends section 1087 of the Companies Act 2006 to extend the list of registered material unavailable for public inspection to include

"any statement delivered to the registrar"

to confirm compliance with identity verification requirements, which means that statements delivered to the registrar concerning identity verification will stay private, protecting personal and sensitive information. Government amendment 10 clarifies that section 1087 is only about withholding from public inspection the portion of the registrar's records concerning companies. Other provisions elsewhere in legislation provide for the withholding from public inspection of the portion of the registrar's record pertaining to other entities, such as limited liability partnerships and limited partnerships.

Seema Malhotra: We have very few remarks to make. As the Minister has outlined, clause 67 amends the Companies Act to extend the list of material unavailable for public inspection to include

"any statement delivered to the registrar"

under the provisions listed. I make the general comment that we want to have greater clarity on this matter so that we do not inadvertently find ourselves, through the legislation, in a situation whereby director, shareholder or officer information becomes hidden for all the reasons outlined in the Bill. The clue is in the name—it is about corporate transparency. I am making a broad point about concerns of reducing transparency when we are here to increase it.

Amendment 10 agreed to.

Clause 67, as amended, ordered to stand part of the Bill.

Clause 68

REQUIREMENTS FOR ADMINISTRATIVE RESTORATION

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

New clause 45—*Striking off a company: identity verification*—

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1003 (striking off on application by company) insert—

'1003A Striking off on application by company: identity verification

Before striking off a company under section 1003, the registrar must first, in the case of each individual named as a director of the company—

(a) confirm that the individual's identity is verified (see section 1110A), or

(b) confirm that the individual falls within any exemption specified in regulations made under section 12(2A)(b).'"

This new clause would extend directors' Identity Verification requirements to dissolving a company in addition to registering a company.

New clause 46—*Application for administrative restoration to the register*—

"In section 1024 of the Companies Act 2006 (application for administrative restoration to the register), for subsection (3) substitute—

'(3) An application under this section may only be made by a former director, former member, former creditor or former liquidator of the company.'"

This new clause would make it possible for a creditor or liquidator to apply to restore a company administratively.

Kevin Hollinrake: Clause 68 amends section 1025 of the Companies Act 2006 to require that outstanding fines or financial penalties must have been paid for a company that has been previously struck off to be restored to the register. I thank the hon. Members for Feltham and Heston and for Aberavon for new clauses 45 and 46.

First, new clause 45 seeks to ensure that before striking off a company, the registrar must check whether the named directors have had their identities verified or do not need to do so because are they are exempt. Secondly, there are two routes by which a dissolved company can be restored to the register: one is an administrative process involving application to the registrar; the other involves applying to the court to order restoration. New clause 46 would expand the categories of persons who can use the administrative route by allowing former creditors and former liquidators to apply to the registrar for a dissolved company to be restored to the register. At present, only former directors or members of the company can apply to the registrar. Creditors of the company at the time of its striking off or dissolution and former liquidators currently have access to the court application route under section 1029 of the Companies Act 2006.

While I appreciate that in comparison to the administrative route, the court route is more cumbersome and potentially costly, it exists for a reason. Where a creditor seeks restoration in an effort to prove a debt outstanding from a company, the court is best placed to determine the validity of the case. Opening the administrative restoration route to creditors would place the registrar in the position of having to judge the legitimacy of a creditor's interest in a company. That is not and should not be the role of a registrar.

However, liquidators are a matter of public record and in many cases might be the official receiver. I appreciate that there may be instances where their interests in restoring a company might be in the wider interest of others, including potential creditors, and that there may be a case for giving them access to the less cumbersome

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administrative process. On the basis of our undertaking to consider the matter further, I shall be grateful if hon. Members do not press the new clause.

Although driven by good intentions, we believe that new clause 45 is unnecessary. As the Committee has heard, ID verification requirements will apply to all new and existing registered company directors, as well as to people with significant control and those delivering documents to the registrar. That means that directors and beneficial owners already on the register prior to the reforms coming into force will be covered by the ID verification requirements, although they will have a transition period within which to become compliant.

Directors of companies applying for strike-off under section 1003 of the Companies Act 2006 will therefore not evade verifying their identity before their company is struck off without exposing themselves to criminal liability. Crucially, anyone delivering an application to strike off a company to the registrar will also have to verify their identity. I hope that that explanation is appropriate, and provides such reassurance that hon. Members will consider not pressing the new clauses.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Ms Bardell.

Clause 68 makes welcome changes to the Companies Act and should make it easier to enforce penalties imposed in response to criminal breaches under it. The circumstances under which an application can be made for a company struck off the register to be restored to it are set out in section 1025 of the Companies Act. Clause 68 amends section 1025 to make it clear that, as a prerequisite for any such application, any outstanding fines imposed on the applicant and relevant company directors in relation to a criminal offence under the Companies Act must be paid in full. That is a positive step toward increasing levels of compliance with companies legislation in the UK.

The Minister may wish to clarify one point in relation to company directors convicted of criminal offences. In previous sittings, the Committee discussed the grounds on which someone can be disqualified from serving as a company director under the Company Directors Disqualification Act 1986 and subsequent amendments. They include the disqualification of individuals guilty of persistent breaches of companies legislation. That appears to leave the door open for someone to serve as a director, even if they have committed a criminal breach of the legislation, provided they have not done so on multiple separate occasions.

Will the Minister tell us whether the Government considered extending the criteria so that anyone with even a single criminal conviction related to companies legislation would be prohibited from serving as a director again? Does he believe that it might send a stronger message were the Government to adopt a zero-tolerance approach to these kinds of crimes? I hope that he will come back on that point. It has some relation to new clauses 45 and 46, and I look forward to the remarks of my hon. Friend the Member for Feltham and Heston on them.

Clause 69 establishes—

The Chair: Order. We are not there yet. The hon. Member is getting a little ahead of himself.

Stephen Kinnock: I am getting a bit excited. Sorry, Ms Bardell. I will leave it at that.

Seema Malhotra: I am grateful for the opportunity to speak to new clauses 45 and 46, following the remarks of my hon. Friend the Member for Aberavon. He and the Minister highlighted how clause 68 amends the Companies Act and provides that outstanding penalties will need to be paid by applicants or directors for a full strike-off. If I am correct, section 1025, which the clause amends, is about applications for administrative restoration by a former director or member—a shareholder—whereas a creditor would use a separate process under section 1029 to restore a company to the register. That is not being amended by the Bill and does not require payment of outstanding fines.

10.15 am

The Minister has said that a less cumbersome process may be applied for creditors in some circumstances, but it is important and helpful to repeat our arguments in favour of new clause 46 before the Minister reaches a decision. The Minister has also said that he believes new clause 45 to be unnecessary. Under that provision, directors who applied to dissolve a company would be required to have their identities verified by the registrar under the proposed ID requirements. We believe that that closes another loophole and I am not sure that the Minister addressed the issue, but perhaps I misunderstood him. In our view, the provision would deter directors from striking off a company in order to avoid scrutiny of fraudulent activity. I am not clear how those individuals would be caught otherwise.

Kevin Hollinrake: As I said in my remarks, anyone delivering an application to strike off a company to the registrar would have to verify their identity. I do not see how that is not clear.

Seema Malhotra: I thank the Minister for that intervention. If he means that the aims of the new clause are already included in the proposed operation of the system, that is helpful clarification.

Currently, when companies are struck off the Companies House register, very little is done to check whether fraud has occurred and, in turn, that means that there are few repercussions for the directors of those companies. On average, 400,000 companies are struck off the register each year, so perhaps the Minister could go one step further and clarify whether such ID verification will apply to all directors of companies that are struck off. How will that happen if there are no unique identifiers? If wrongful actions are committed, will the proposed regime go one step further to ensure that red flags and investigations into possible misconduct or fraudulent activity will ensue? At the moment, unscrupulous directors are likely to misappropriate the strike-off process to avoid scrutiny and to rack up debts or to sell company assets ahead of the company dissolution, effectively absconding with the proceeds. Our new clause does not just call for a check on IDs but for red flags in the system to alert authorities to possible fraudulent activity that should be subject to further investigation. The Minister may want to respond to that suggestion later.

As I have outlined, creditors may seek to apply through the courts for a company to be restored, albeit under different legislation. New clause 46 would enable a creditor or a liquidator to apply to restore a company administratively. I believe it would be helpful to the Minister's considerations to outline our intentions. The introduction of director identity verification may go some way to deterring directors from registering multiple companies fraudulently, but in the case of companies already struck off the register, there is limited opportunity to hold directors accountable for their wrongful actions and for returns to their companies' creditors.

Members of the insolvency and restructuring trade body, R3, report that director disqualifications have little or no effect on fraudulent directors. It is absolutely shocking that the system has been allowed to continue in that way. There is little or no effect on fraudulent directors, and seriously rogue directors will often go on to commit repeat frauds despite being disqualified.

Those directors who have been disqualified may continue to operate behind the scenes as de facto directors, shadow directors or advisers to a company. We are trying to close some of those options, but there are all sorts of ways in which those who want to get around the system can do so if determined. Hence the need for the legislation to be more belt and braces.

A much more significant deterrent occurs when the company is put through an insolvency process and directors are held to account for the assets that have been misappropriated. If a company has been dissolved and automatically struck off the Companies House register—the company therefore no longer exists, in effect—that process can only take place if the company is first restored. However, if a company's former creditors or liquidators at the time of the company's striking off or dissolution wish to apply to restore the company, they must do so through the court.

The court process can clearly deter creditors as it is sometimes a complex procedure, in part due to the costs, which are typically £1,500 to £3,000, and in part due to the huge amount of time involved, which can be 12 to 18 months. Businesses are busy, creditors are busy, and the extra strain has to be weighed up against the cost of doing it. We have to have a solution. I am glad that the Minister has intimated that there ought to be a basis for what I think he described as a "less cumbersome" process. I agree. I hope that we will see some proposals, perhaps in Committee. It would be helpful to strike while the iron is hot.

Directors are all too easily able to create a significant barrier to the investigation of their conduct. Indeed, data from Companies House shows that only 2% of dissolved companies are put through a process to restore them to the register each year. I do not have the data on the number of creditors who might do so were it a less cumbersome process, but I think we can all agree that it would be far more than 2%. Certainly the research suggests that.

Under section 1024 of the Companies Act, former directors or members of a company can apply to restore a company administratively, avoiding a court process. However, that is not an option for a former liquidator or creditor of a company. New clause 46 would amend section 1024 so that a former creditor or liquidator could apply to restore a company administratively, without the need for a potentially lengthy and costly application to court. That would make it simpler for a company to be put through an insolvency process so that the company's directors can be held to account for the assets that have been misappropriated and incur liability for their actions. Returns to creditors could then be made.

I hope that the Minister will, in his reflections, consider the wording of new clause 46. It might help him on the way to finding a simple solution. There is a real issue here. In the interests of fairness to businesses and creditors that do the right thing but are treated unfairly, it should not be so hard to bring to account those who had clearly planned to be struck off, more quickly, cheaply and easily.

Kevin Hollinrake: On the hon. Lady's legitimacy argument, as I said, we can understand that there might be a case about liquidators. We have committed to look at that. It is much more difficult in the case of creditors' interests. She talked about the misappropriation of funds, but it is not the registrar's position—the registrar is not deemed capable—to determine whether that is the case. I do not see how a creditor's interests can be decided on by the registrar. However, I commit to us looking at the liquidator element.

On the issues the hon. Lady has mentioned with respect to Companies House and new clause 45, the requirements under the objective at the start of the Bill make it clear that the registrar's responsibility is to minimise unlawful activities. On whether a striking-off in certain circumstances is a red flag, there will be a number of ways in which that can be determined, either through automated processes or by human intervention. It is not realistic for the registrar to determine fraud, but it is definitely within her capability to determine whether there is a red flag around fraud. We expect the registrar to put those measures in place; in fact, there is a requirement for her to do that under objective 4—minimise unlawful activities.

We have had debates at length in previous sittings on whether we should dictate to the registrar how she should do that, with myriad conditions and circumstances involved and discussion as to what constitutes a red flag. On this side of the Committee, we believe that we should leave it to Companies House to determine how the registrar minimises unlawful activities and what constitutes a red flag. That, of course, will be shared with relevant enforcement agencies.

Seema Malhotra: I know the Minister is not intending to, and I would not want him to, misrepresent our position, but the difference between our views is generally whether there should be greater tools and provision in legislation to give the registrar teeth that might be helpful in her work. The Minister is right that it would not be for the registrar to determine fraud, but that there should be a red flag system whereby the registrar is uniquely in a position to be able to determine that.

Kevin Hollinrake: We are in total agreement—violent agreement—which is great.

The hon. Lady made a point about shadow directors. There are all kinds of ways in which a nefarious individual can influence the behaviour of a company, for which we cannot possibly legislate. There is no such thing as, and no legal status of, a shadow director. Therefore, how

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would we ban somebody from being one? We have to operate within the boundaries of the law. That is what we feel, and we have reached a fair balance here. I hope the hon. Lady will not press her new clauses to a vote later in the proceedings.

Question put and agreed to.

Clause 68 accordingly ordered to stand part of the Bill.

Clause 69

DELIVERY OF DOCUMENTS: IDENTITY VERIFICATION ETC

Question proposed, That the clause stand part of the Bill.

The Chair: With this, it will be convenient to consider clauses 70 and 71 stand part.

Kevin Hollinrake: The clause introduces identity verification requirements for individuals delivering documents to the registrar. It also requires that when an individual acts on behalf of another, they must confirm that they have the authority to do so. That will enable the registrar to reject documents unless they are accompanied by a true statement that the identity of the individual filing the document is verified and that the person filing the document is authorised to file.

An individual who delivers a document to the registrar on their own behalf must have their identity verified, and the document must be accompanied by a statement confirming their verified status. If an individual is exempt from identity verification requirements under the clause, they must provide a statement to that effect when delivering a document. Documents delivered on behalf of another person must be accompanied by a statement that the filer is authorised to do so. A document delivered by an employee of an authorised corporate service provider must additionally confirm that they are acting in the course of their employment.

Ensuring that individuals are identity verified before they can deliver documents to the registrar and that they are permitted to do so provides greater accountability because the documents will be traceable back to a verified identity.

Clause 70 creates a prohibition on delivery of documents to the registrar by disqualified persons. Clause 71 enables the registrar to reject documents that have been delivered by people who are not within the categories permitted to file documents under clauses 69 and 70.

Stephen Kinnock: Clause 69 establishes a requirement for anyone delivering documents to the registrar to have their identity verified, subject to certain exemptions, which may be set out in secondary legislation. However, it is not clear in what circumstances the Government might consider an exemption appropriate. The requirement for any exemption to be set out in secondary legislation subject to the affirmative procedure is welcome, because it enables the relevant changes to be scrutinised by Parliament. Nevertheless, it would be helpful if the Minister could provide an indication of what sort of exemptions might be expected.

Clauses 70 and 71 relate to the delivery of documents to the registrar. Clause 70 stipulates that disqualified individuals may not deliver documents on either their own or someone else's behalf. As set out in the clauses, individuals delivering documents to the registrar will be required to make a series of statements confirming that they are not subject to any disqualification under companies legislation.

10.30 am

Kevin Hollinrake: The hon. Gentleman asked me for examples of exemptions. We expect exemptions to be used rarely, but examples might include Government Departments, local authorities and international organisations where the identity and accountability of the organisation delivering the information carries little risk.

Stephen Kinnock: I thank the Minister for that clarification. Assessing the meaning of "carrying little risk" is a subjective thought process, but he is right that not everything can be micromanaged in this process. We will probably never get absolute clarity on these issues, but it will be important that Parliament scrutinises the way in which exemptions are implemented so that we get to know what "little risk" means through their implementation. It will also be important for Ministers to keep a close eye on the risk management processes that need to be implemented. As the Minister rightly said, legislation without good implementation is not worth the paper it is written on.

In previous debates, this Committee has discussed issues involving the verification of information provided to Companies House and the enforcement of criminal penalties for those who fail to comply with requirements to provide truthful information. These clauses raise similar questions. For instance, could the Minister explain what actions the registrar will be able to take to verify that, if somebody delivering documents states that they are not acting on behalf of a disqualified individual, that is a true and accurate statement?

The clauses also relate to issues discussed by the Committee on authorised corporate service providers. We all want this Bill to make it much more difficult for the people who own or control companies to hide their identities behind layers of secrecy, which often take the form of corporate service providers or other individuals acting on behalf of those in control. It would be helpful if the Minister could provide more detail about how the Government plan to protect the system against abuse, particularly by third parties acting on behalf of criminal clients. Could he tell us, for instance, whether the Government have considered introducing a more proactive licensing system for corporate service providers—as is used by some other jurisdictions, including Jersey—and what assessment the Government have made of whether the Bill provides adequate safeguards against the submission of false statements to the registrar?

Kevin Hollinrake: I think the hon. Gentleman asked me to address two points. First, he asked how we will ensure that the documents filed are accurate. That goes back to the risk-based approach that the registrar should take on potential red flags and other such matters. Obviously, that role fits into the registrar's wider objectives

of ensuring that the information is accurate and minimising unlawful activity. It is a red-flag approach in terms of systemised and human intervention.

The hon. Gentleman's second, wider point was on the penalties for false filing, which are up to two years in jail. I think most people will consider that to be a decent deterrent against abuse of the system.

Stephen Kinnock: I thank the Minister for that clarification. Does he have a view on the question of a more proactive licensing system for corporate service providers, along the lines of what is done in Jersey? Have the Government made any assessment of whether the Bill provides adequate safeguards against the submission of false statements to the registrar, particularly by corporate service providers?

Kevin Hollinrake: I fully recognise the concerns expressed across the Committee about our oversight of corporate service providers. As I say, we should not mix up the many bone fide companies and household name accountants and lawyers, but clearly there are concerns, for example about some company formation agents. We need to ensure that the system that supervises money laundering is much more effective—we know there are deficiencies. The Treasury is looking at that right now. It will report and say exactly what it will do to beef up the system and make sure it is more fit for purpose. I am taking a keen interest in that. I am just as keen as the hon. Gentleman and other Members that the system properly identifies people with shortcomings and identifies wrongdoing, and that we build a much better system of money laundering supervision.

The hon. Gentleman mentioned licensing. Let us see what the Treasury review says and then we can make judgment. In terms of oversight of the money laundering supervision system, I am as concerned as he is and as keen to make sure that that system is fit for purpose.

Stephen Kinnock: I thank the Minister for that clarification. Will he assure us that he will encourage his colleagues at the Treasury to consider the option of a licensing system within the terms of reference of the review?

Kevin Hollinrake: I am keen to make sure that the system works, whether by licensing or by some other means. There are lots of different options for what might be described as a system that is fit for purpose. Of course, in common with all Members of this House, we are keen to avoid unnecessary bureaucracy, but nevertheless we want a system that works and that we have faith in, so, in my view, all options should be on the table.

Alison Thewliss: I have a small query and seek clarification from the Minister. In clause 69(3), proposed new section 1067A(2) states:

"An individual may not deliver documents to the registrar on behalf of another person unless—

(a) the individual's identity is verified".

Will the identity of those entitled to deliver documents be added to the register, and will they have to be separately verified? I am not clear on the mechanism.

Kevin Hollinrake: Will the hon. Lady ask the question again? I did not quite get it.

Alison Thewliss: Yes, of course. I understand that if someone is delivering documents on behalf of themselves, there will be a check to see whether they are verified, but if someone is delivering documents on behalf of somebody else, the Bill seems to say that they also need to be verified. Is that subject to a separate verification list? That person would not be registering to be a company director in their own right; they would be delivering the documents to register somebody else, so is there now going to be a separate list for that?

Kevin Hollinrake: I think I have understood the hon. Lady's question. Clearly, all directors and company service providers need to have their identity verified too. If that is what the hon. Lady is referring to, that is absolutely contained in the provisions of the Bill.

Dame Margaret Hodge: I was very interested in what the Minister said about ensuring that the authorised company service providers should be checked and supervised properly. It is really important to ensure that all the details of the individuals on the register can be found with certainty. However, we are all struggling with how to do that in quickest, most cost-efficient and effective way. Does the Minister agree that a suitable mechanism should be presented on Report—unless he would like to suggest one now—that does not waste time, keeps within the timeframe, does not require massive additional resources and enables swift action to be taken? I love the Treasury, but we should do this without having to wait for a Treasury review or reorganisation. Does he accept that that might be a way forward? We all want the same thing, and if we do not get this right there could be a huge flaw in the system we are establishing.

Kevin Hollinrake: We are on the same page about ensuring that the system is fit for purpose. It is difficult for me to do a review when the Treasury itself is doing one and is probably better placed than I am to do it, given its wider understanding of the system.

Liam Byrne (Birmingham, Hodge Hill) (Lab): I don't think that's true!

Kevin Hollinrake: Perhaps it might not be as ambitious as me, but it certainly has access to detailed information and the resources to properly conduct the review. The Treasury should be allowed to do that job.

I think that we are all on the same page. I am absolutely committed to ensuring that the system is fit for purpose. It is not a case of just getting the Bill passed; we need to ensure its implementation, as I have said many times in the House and in Committee.

Liam Byrne: I am sorry to intervene, but the Minister provokes me. A point to take away is that we are now bedevilled by a real problem in this country: responsibility for policing this area is divided between the Minister, the Treasury, the Foreign, Commonwealth and Development Office and the Bank of England. At the moment, as the Foreign Affairs Committee has said repeatedly, there is not an effective gearbox for joining

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those things together. If one of the Minister's legacies could be to fix that problem, he would be cheered from all sides.

Kevin Hollinrake: God forbid that the Government work in silos, whoever is in power, but they do tend to do so at times. I am on the same page as the right hon. Gentleman and other Committee members that we must have a joined-up approach right across Government. The systems of supervision of money laundering must be fit for purpose, tight, verified and checked, and the people who do not do it right must be held to account. We must ensure that we get that right, and I am fully committed to that.

Question put and agreed to.

Clause 69 accordingly ordered to stand part of the Bill.

Clauses 70 and 71 ordered to stand part of the Bill.

Clause 72

DELIVERY OF DOCUMENTS BY ELECTRONIC MEANS

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 73 to 75 stand part.

Kevin Hollinrake: I hope that the clauses are pretty uncontroversial, but let us see. Companies House systems are already enabled to receive digital account submissions. The clauses will help Companies House to become a fully digital organisation by 2025.

Clause 72 transfers the power to require delivery by electronic means from the Secretary of State to the registrar. Filing information digitally is easier, quicker and more secure for filers. The information can be more easily checked for accuracy and compliance, and is less likely to be rejected for basic errors or omissions. That increases transparency. Suspicious activity can be better identified, contributing to our efforts to detect and prevent economic crime.

Clause 73 will require companies to deliver to the registrar a copy of a court order confirming their share capital reduction, rather than the original document itself. Clause 74 does the same in respect of a declaration of solvency. Clause 75 gives the registrar an administrative power to specify, in registrar's rules, where documents must be delivered together.

Requiring companies to file component parts together will make it easier for Companies House to check that companies are meeting their filing obligations. It will also reduce unnecessary errors. Where filings are made that do not meet the requirements, they can be rejected, helping to improve the integrity of information on the register.

Stephen Kinnock: The main purpose of clause 72 is to make it easier for future changes to registrar's rules to be made by the registrar directly, rather than through the Secretary of State. The Government's intention is to facilitate the electronic delivery of documents. Using quicker, more efficient electronic systems for delivery should play an important role in wider plans for the transformation of Companies House and the service it provides.

With that in mind, could the Minister say a bit more about how the provisions fit into the ongoing Companies House transformation programme, particularly in relation to the planned new IT system? When might the fully electronic system for the submission and processing of documents submitted to the registrar be in place? We would be grateful for the Minister's comments, particularly about timing.

10.45 am

Clauses 73 to 75 make further changes involving the format of documents that may be delivered to the registrar—for instance, by enabling copies of a court order, rather than the original order, to be submitted, and by enabling the registrar to require multiple documents in relation to a single filing to be submitted together rather than individually. The Opposition support these proposals. We all want a more streamlined and efficient operation at Companies House as a result of these and related measures. It might be helpful if the Minister could explain, in the context of these provisions, what tools will be available to Companies House to ensure that documents submitted electronically, such as copies of court orders, are authentic, and how the new IT systems will help to reduce the risk of fraudulent filings.

Kevin Hollinrake: Companies House already has the capability to accept documents filed digitally—89% of companies already do that. Therefore, it is not an IT development requirement; it is just a requirement for companies to file documents digitally rather than using paper. It puts the onus on the companies rather than on Companies House itself.

In relation to authenticity, we are again back to the red-flag approach. Companies House has a requirement, an objective, to oversee the integrity of the register. There is definitely a risk-based approach to that. The aim is to try to put the red flags in place to ensure that we are identifying documents that are not authentic. Also, there are penalties for false filing of documents, which I think we went through previously.

Alison Thewliss: I have a brief point on a technical issue. It was flagged in evidence that some documents submitted electronically or posted on the Companies House website in electronic format were image files rather than searchable documents. I wonder what consideration the Minister has given to mandating the type of files that can be filed electronically, because it would make sense to accept them in a format that can then be searched online.

Kevin Hollinrake: The hon. Lady makes a good point. I do not know the detail behind that, but I am happy to go away and look at that for her.

Question put and agreed to.

Clause 72 accordingly ordered to stand part of the Bill.

Clauses 73 to 75 ordered to stand part of the Bill.

Clause 76

POWER TO REJECT DOCUMENTS FOR INCONSISTENCIES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 77 to 79 stand part.

Kevin Hollinrake: Clauses 76 to 79 support the Bill's overarching ambition to broaden the powers of the registrar to maintain the integrity of the register. Clause 76 provides a new power to reject documents for discrepancies. Currently, the registrar must accept documents if they have been properly delivered—that is, they meet the requirements as to their contents, form, authentication and manner of delivery, and the other requirements listed in section 1072 of the Companies Act 2006.

Documents containing information that is at odds with information that the registrar holds may none the less meet "proper delivery" requirements in their own right. If so, they must be placed on the register despite the apparent inconsistency. This clause cures that problem by enabling the registrar to reject a document if it appears to be inconsistent with other information that is held by or available to the registrar. The power is available if, due to the inconsistency, the registrar has reasonable grounds to doubt whether the document complies with the requirements as to its contents.

Dame Margaret Hodge: This is a question to aid understanding. This provision sets out the duties of the registrar in relation to documents, but the documents will actually be checked by the company service providers, will they not? That will be outsourced to those providers. I might be wrong—the Minister is looking puzzled—but that is the case if I read the situation correctly. Therefore, is this provision suggesting that there will be a check at Companies House on the work that the company service providers do? Perhaps the Minister can say a little about how that will be implemented. I thought that all that was to be pushed out to the company service providers.

Kevin Hollinrake: Not at all—quite the opposite. Companies House has a requirement to oversee the integrity of the register, and the clause states exactly that. If the registrar feels there is an error that she is not happy with in the document, or it is inconsistent, she can reject the document whether it is filed by a company service provider or by a director of the company.

Dame Margaret Hodge: For complete clarity, there will be a risk-based system of checks on documents provided as a mechanism for ensuring the accuracy of the documents that are submitted.

Kevin Hollinrake: Absolutely. That is exactly how we expect it to operate.

Once the registrar refuses the document, it will be treated as not having been delivered. Under clause 77, the Companies Act 2006 allows the registrar, upon receipt of an instruction from someone else and only with the relevant company's or other body's consent, to correct a document at the pre-registration stage if it appears to be incomplete or internally inconsistent. That power was useful when more companies filed on paper, as informally correcting material was easier than rejecting a document and waiting for it to be refiled. However, in the digital world, filings can now be rejected, returned to the filer and then refiled within minutes. There is no longer a need to informally correct a document pre-registration. Clause 77 therefore removes that power, which also encourages accuracy in filing by removing the expectation that a document can be informally corrected.

Clause 78 reduces the period of time for which the registrar must keep originals of documents that have been delivered in hard copy from three years to two years. Once that period has passed, the original documents can be destroyed as long as the information they contain has been recorded. The retention period that was previously reviewed was reduced from 10 years to three years when the Companies Act 2006 replaced the 1989 Act. The number of requests for the retrieval of filings has decreased further and steadily since then due to declining paper filings, improved image capture processes and increased confidence in digital records. It is therefore right to reduce the retention period again. The information in the documents will still of course be available electronically to users as appropriate.

Clause 79 amends the period for which the registrars in each UK jurisdiction must maintain certain records available for public inspection. The records in view are those concerning dissolved companies, including certain information regarding PSCs of dissolved companies, overseas companies that have ceased to have any UK connection, and overseas credit and financial institutions that have ceased to be required to file accounts with the registrar. The clause provides that those records can be moved to the Public Record Office two years after the relevant date of dissolution or cessation.

Dame Margaret Hodge: May I ask a question on that? It is relevant to later amendments. I do not know whether the Minister or his officials can help, but can Companies House stop a request for dissolution?

Kevin Hollinrake: In what circumstances?

Dame Margaret Hodge: I think it can. I have tried to find its powers and cannot find them. The great example is the Savaro one. It was the UK-based company that owned the warehouse where the fire took place in Lebanon. It tried to dissolve the company, but I think the Minister intervened. I have looked up Savaro and it does still exist. It is quite important if we have a dirty company that wants to rush away. Do we have powers to dissolve it?

Kevin Hollinrake: I am happy to raise that with officials and come back to the right hon. Lady. *[Interruption.]* There is some flapping about right there, as I speak.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: Not before I have answered the question.

Liam Byrne: I was just going to give the Minister more time.

Kevin Hollinrake: Very kind.

Dame Margaret Hodge: The answer is yes, is it?

Kevin Hollinrake: Yes, the registrar can decline an application if it does not satisfy the requirements—*[Interruption.]*

The Chair: Order. If Members could refrain from shouting across the room, out of respect to our colleagues at *Hansard* and those watching proceedings, that would be greatly appreciated.

Kevin Hollinrake: The clause also provides that the registrar need not make these records available for public inspection 20 years after those dates.

Seema Malhotra: I will speak to clauses 76 to 79. I thank the Minister for his comments. He has outlined that clause 76 would amend the Companies Act 2006 to give the registrar the power to reject documents that are not consistent with information held by the registrar and that give the registrar reasonable grounds to doubt whether the document complies with Companies House requirements.

A document that is refused under this power is treated as not having been delivered. These clauses will apply to all documents filed with the Companies House registrar. Such documents could include the annual confirmation statement—formerly the annual return—the annual accounts, forms appointing or terminating directorships, applications to register a charge or the filing of changes to the articles of association. The broad list can be found on the Government website under the postal forms that a limited company can file with Companies House.

Clause 76 is a welcome measure that should help Companies House transition from passive administrator to active agent as regards the information submitted to it. Will the Minister expand on how the registrar will be alerted when inconsistent documents are submitted? Have there been discussions with the registrar about the process by which inconsistencies will be checked? The Government may be considering a risk-based approach such as automatic flagging, but it would be helpful to clarify how the system is likely to work and be implemented.

I was searching the legislation to see if there was any deadline for rejection by which Companies House will confirm the rejection of a document. I cannot see a timeline specified, but I would be grateful if the Minister could correct me if that is wrong. In the Bill as drafted, a rejected document is treated as never having been delivered. Could the Minister clarify that? It suggests to me—though it is not fully clear—that companies could be submitting information in good faith, maybe just before a deadline, but could be fined for missing a deadline if the document was subsequently rejected. It would be helpful to know whether Companies House will be working to a deadline to confirm or reject a document that has inconsistencies. If there will be, what might that mean for companies that submitted documentation in good faith, and what will happen with the resubmission of any documentation?

I have no particular comments on clause 77, but I have a question about clause 78 and the preservation of original documents. The Minister is right that our confidence in digital technology and digital records has improved significantly. Can the Minister clarify what needs to be kept in hard copy for two years? Does that refer to all the records that we have discussed? I am not clear about how that sits alongside options for electronic storage of original documents that had been certified by the registrar. There are some other mentions of certification in the Bill, so it would be useful to understand that. I do not have any other concerns or questions on that point.

11 am

The Minister talked about clause 79. Keeping dissolved records on persons of significant control for 20 years is helpful. On dissolution of records, will Companies House be keeping any record of the number of requests for information regarding previously dissolved companies? I think the Minister was saying that the information retained in the documentation will be kept, should there ever be a requirement to research it.

Kevin Hollinrake: How can we consistently tackle inconsistency in the documentation? We are back to the red flags issue. It is up to Companies House to determine the circumstances in which something would have a red flag, in that it was incorrect. It is not impossible for the Committee to do Companies House's job for it in terms of how it determines what might constitute a red flag, but I have every confidence that Companies House will determine that appropriately. Again, that is assisted by the requirement that when people file information that is clearly, patently and deliberately wrong, there are penalties for false filing.

As for deadlines, I do not think there is any deadline that the registrar has to adhere to for when determining something to be inconsistent or wrong. The document can be rejected and companies can expect that rejection to be speedy in the majority of cases. The registrar has discretion not to reject an inconsistent document if she feels it is not materially inconsistent. Those are points of detail that can probably be left to Companies House.

Seema Malhotra: I thank the Minister for his response. What he said about points of detail is true to some extent, but not fully true as regards what the provisions could mean for companies that have submitted information in good faith before a deadline. If documents are rejected after the deadline, it could result in the company being considered to have not submitted documents. There seems to be a slightly grey area. Would companies be fined for missing deadlines, or would they be given, in the case of a significant document, a short period of, say, seven days to resubmit it with corrections, without facing a penalty? It could be seen as a late submission. We just want a fair process in instances when genuine mistakes are made.

Kevin Hollinrake: So do I, and I would expect the registrar to use her judgment when determining whether something has been inappropriately filed. We would not expect a fine to be issued if it is not the company's fault that it has missed a deadline, as in the situation that the hon. Lady describes. There is a wider requirement for any registrar to act reasonably in that regard.

Question put and agreed to.

Clause 76 accordingly ordered to stand part of the Bill.

Clause 77 to 79 ordered to stand part of the Bill.

Clause 80

POWER TO REQUIRE ADDITIONAL INFORMATION

Kevin Hollinrake: I beg to move amendment 11, in clause 80, page 63, line 2, at end insert—

"(vi) section 28 or 29 of the Limited Partnerships Act 1907;".

This amendment spells out that statements made by a person in response to a requirement under section 1092A of the Companies Act 2006 can be used in criminal proceedings for the false statement offences under the Limited Partnerships Act 1907.

Amendment 11 reinforces the legal framework to maximise the prospects of truthful and accurate information being delivered to the registrar. The general rule is that fairness requires that a person who is compelled on pain of criminal sanctions to provide information to the authorities should not be prosecuted if the information they are forced to supply is incriminating. Proposed new section 1092C(1) of the Companies Act 2006, inserted by clause 80, ensures that that fairness requirement is met in relation to uses by the registrar under the new power in proposed new section 1092A to compel a person to provide her with information for the purposes of her being able to determine whether filing obligations have been met.

However, the privilege against self-incrimination is not absolute. As is the case elsewhere in the statute book, the Bill includes exceptions. A person compelled to provide information is not immune from prosecution for offences that prohibit the giving of false, misleading or deceptive statements. Proposed new section 1092C(2) provides for that exception. The amendment adds the two proposed new "false statements" sections that clause 129 of the Bill inserts into the Limited Partnerships Act 1907 to the list in proposed new section 1092C(2). That ensures that when the registrar compels a person to provide information under her new power to determine whether filing obligations concerning limited partnerships have been met, the person cannot claim privilege against self-incrimination if the information they are compelled to deliver reveals that they have submitted a false filing. I trust the Committee will agree that this is a well-considered amendment.

Seema Malhotra: We do not have extensive remarks. As the Minister has outlined, the clause introduces a new power for the registrar to require information to determine whether someone has met the requirements on document delivery. Failure to comply without a reasonable excuse would be a criminal offence.

The Chair: To clarify, we are debating Government amendment 11 to clause 80. Is that the amendment the hon. Lady is focusing on?

Seema Malhotra: Yes. Thank you, Chair. I was just speaking briefly to clause 80. The amendment spells out that statements made by a person in response to that requirement can be used in criminal proceedings on those false statements, and we support that.

Amendment 11 agreed to.

Kevin Hollinrake: I beg to move amendment 12, in clause 80, page 63, line 14, leave out subsection (5).

This amendment is consequential on NC17.

The Chair: With this it will be convenient to discuss the following:

Government new clause 16—*Material unavailable for public inspection: verification information.*

Government new clause 17—*Material unavailable for public inspection.*

Government new clause 18—*Protection of information.*

Government amendments 49, 40 and 39.

Kevin Hollinrake: These amendments relate to the register of overseas entities introduced by virtue of part 1 of the Economic Crime (Transparency and Enforcement) Act 2022. The new clauses mirror equivalent sections in the Companies Act 2006 as amended by part 1 of the Bill, which we have already debated. They will ensure consistency between the two Acts.

The amendments will ensure that the public register contains only information that it is necessary to display, and that certain information including email addresses is not made publicly available, because of the risk that that could facilitate identity theft or other fraud. New clause 16 will ensure that personal information supplied in connection with the verification process for the register of overseas entities can be appropriately protected from public inspection. It is right to ensure that certain personal information, including email addresses, is not made publicly available because of the risk that that could facilitate identity theft or other fraud.

Dame Margaret Hodge: Again, I am really asking for information. It would be interesting to learn whether the Minister knows how many overseas entities have been registered since the enactment of the 2022 Act. It could still end up being unclear who the real beneficial owner was of an overseas entity. If someone went to an overseas entity to find out who owns One Hyde Park, and it said that the owner was a British Virgin Islands company, would the owner of that company be shown?

Kevin Hollinrake: That does not directly relate to this amendment, but I will get back to the right hon. Lady on that point in a separate conversation. Details such as the name and company of the person verifying the information submitted by an overseas entity to the register will continue to be publicly visible; it is not our intention to change that.

New clause 17 replaces sections 22 to 24 of the ECTE Act with proposed new sections 22 and 23. As with new clause 16, new clause 17 adds to the list of information that the registrar must not make available for public inspection, to help prevent the abuse of such information. That includes categories of information that were never intended to be made available for public inspection, but were missed during the expedited passage of the ECTE Act through Parliament, such as the email address of an overseas entity. New clause 17 also includes new categories of information that an overseas entity will be required to provide as a result of other amendments that are being introduced by the Bill, including the title number of land that an overseas entity owns, and documents provided to the registrar under her new power to require further information. New clause 17's insertion of new section 23 also means that the registrar can disclose protected information about trusts, date of birth and residential address only in two scenarios.

[Kevin Hollinrake]

Amendments 12, 39, 40 and 49 are consequential on new clause 17. Under the amendments, the registrar need not retain material that must not be made available for public inspection longer than appears reasonably necessary to her for the purposes for which the material was delivered to her.

I will say to the right hon. Member for Barking that there have been over 3,000 registrations on the register of overseas entities since it was established on 1 August 2022. It is right to ensure that the public register of material concerning overseas entities contains only information that is necessary to display, and that certain information, including email addresses, is not made publicly available for the reasons that I have stated. It is also right to amend the Companies Act 2006 in a way that mirrors amendments made in the Bill, so that there is consistency between the two Acts.

Seema Malhotra: In the time that we have had, it has been difficult to go through exactly what all the new clauses and amendments mean for what is and is not hidden information. We may come back to this issue, so I will not oppose the measures today. New clause 16 confers a power to make regulations about identity verification.

Kevin Hollinrake: Protected information includes protected date of birth information, which means information as to the day of the month—but not the month of the year—on which the registered beneficial owner or managing officer of an overseas entity was born. It also includes protected residential information, which means information as to the usual residential address of an individual who is a registered beneficial owner or managing officer, and protected trust information, which means the required information about a trust.

11.15 am

Seema Malhotra: I thank the Minister for his clarification. He did set out a little of that when he spoke to the new clauses. Given the speed with which we are going through the Bill, it is sometimes a little hard to keep track of what has been added, and whether there are any other consequences from that. I am not saying that there are consequences, but it feels as though a lot of Government amendments have come forward. I am not necessarily objecting to those before us today, but as a matter of principle, we need to go through provisions to check whether the devil is in the detail; after all, as I have said, the Bill has "Corporate Transparency" in its title.

Kevin Hollinrake: We will debate the overseas entities register in more detail in part 3, so there might be a good opportunity for further debate then.

Seema Malhotra: That would be welcome. New clause 18 grants the Secretary of State the power to make regulations as they see fit, in order to protect material on the register. Further scrutiny will be required on what could happen in future, and the circumstances in which that power might be needed.

The perception may have been that we had opposing positions on some aspects of the Secretary of State's powers, but we now find ourselves coming a little closer together. We are debating the Bill, which largely has cross-party support, in good faith, but there are many little ways in which things could get changed, without those changes being subject to full debate in the House. It is important that we debate that further during proceedings on the Bill. I repeat that I want to ensure that there is no devil in the detail. I appreciate the Minister committing to return to the issue in part 3, when we will have a chance to look at the matter in slightly more detail.

Dame Margaret Hodge: There was a report in *The Guardian* yesterday on an organisation called Wealth Chain Project. Its analysis showed that 138,000 residential and commercial properties in England and Wales are owned by offshore companies. We have managed to get 3,000 so far, so there is a heck of a lot—

Kevin Hollinrake: There is not a direct correlation between the two, because one overseas entity might own many UK properties.

Dame Margaret Hodge: Ah, that is a valid point, and I think the article deals with it. Some entities will own more than a few properties, but—sorry, I am just looking to see whether the article does make that point. The article demonstrates the enormous importance of Executive action. That is why the Opposition feel strongly that action should take place; there is no point in just putting legislation in place. There is a desire to monitor that action, and toughen up the provision to ensure that the action happens. I hope that the Minister bears that in mind. No matter how many entities own more than one property, 3,000 is still a long way from the 138,000, assuming that figure is accurate.

I am getting muddled by all these amendments. Will the Minister or his officials provide us with a list of what information will be on the register? What will we see? If we had that, we could take a view on whether that information is sufficient for all our purposes.

Liam Byrne: It is a pleasure to see you in the Chair, Ms Bardell. I fully appreciate the Government's need to table amendments—the grind of Committee exposes all kinds of opportunities to improve and strengthen legislation—but this is a good example of the kind of measure that it would have been helpful to see at the beginning of the process, not halfway through, not least because we are all worried about Companies House and its capacity to hunt and root out badness. All of us have in our time, and in our own way, relied on journalists' investigative capacity to flag bad activity. It is important to the Opposition and, I am sure, the Government, to hear from journalists and investigators on whether the measures that the Minister is introducing jeopardise or constrain their ability to conduct the investigations that they have carried out so admirably over the last few years.

I hope that the Minister will take up the suggestion of my right hon. Friend the Member for Barking and set out very clearly for us what information will be available. The whole Committee would be interested to hear, perhaps informally, from journalists on whether that information will constrain their ability to investigate; we can then decide whether to come back to this issue on Report.

Kevin Hollinrake: On the points raised by the right hon. Member for Barking, as I have said many times in Committee and in the House, implementation is everything. In my business, we used to say, "Ideas are 10 a penny. Execution is everything." We have to ensure that we follow through on the measure, and that it is properly executed.

We will debate the overseas register at length when we come to part 3, so I ask the right hon. Lady to hold off on any key questions about that. We will try to get the answers that she wants, and will probably have a conversation about the kind of information that she wants to see. The provisions relating to overseas entities are about trying to identify the people who have control over those entities and companies. That is what the legislation is about: understanding who the directors are—for the first time, we will be able to see that properly—and the persons of significant control. They are not just people who own more than 25% of a company, but people who exert control in other ways.

The right hon. Member for Birmingham, Hodge Hill, is right that journalists play a key part in investigation. Many of them spend much of their time analysing databases of all kinds to try to find information that would be useful for law enforcement agencies. We want to ensure that that information is readily available to them, because they play a huge investigative role. We are very keen to ensure that they get the information that they need.

Amendment 12 agreed to.

Ordered, That further consideration be now adjourned. —*(Scott Mann.)*

11.24 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

Tenth Sitting

Tuesday 8 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 12 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 8 November 2022

(Afternoon)

[Julie Elliott *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 80

Power to require additional information

2 pm

Question proposed, That the clause, as amended, stand part of the Bill.

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, Ms Elliott. Clause 80 gives the registrar of companies a new power to require information. The registrar's existing powers are insufficient to tackle the large volume of inaccurate or suspicious information on the register. She has no powers to compel filers to furnish her with information to assist her to investigate filings that she is concerned are inaccurate or fraudulent, and that she may wish to remove. That means that suspect information is often accepted on to the companies register, damaging its accuracy, reliability and usefulness.

The insertion of proposed new section 1092A into the Companies Act 2006 will give the registrar a power to require that a person provide her with information for certain purposes. Those are: determining whether someone has complied with a delivery obligation or requirement; determining whether a document delivered to her satisfies the proper delivery requirements, including whether it contains accurate information; or determining whether or how to exercise her powers to remove improperly delivered information from the register or to resolve inconsistencies on it.

It is suspected that a significant amount of fraudulent information is already on the register. The power will therefore apply to existing register information as well as to all new information submitted to the registrar. The clause will also make it an offence for someone to fail to respond to the registrar's request for information without a reasonable excuse. The maximum penalty for that offence will be two years' imprisonment. It is imperative that we equip the registrar with all the tools necessary to challenge dubious information and ensure the integrity of the register. The power in the clause is the cornerstone of that ambition.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Ms Elliott. I thank the Minister for his remarks. We support the clause, which provides for a power to require additional information. He is right that the proposed new section is the cornerstone of providing the registrar with the powers to maintain the integrity of the register, so we support the clause.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It is a pleasure to serve with you in the Chair, Ms Elliott. When the Minister winds up the debate on the clause, will he say a little more about some of the information that the registrar may be seeking, and in particular whether she is able to solicit information from people seeking to file accounts, and so on, that has been requested by other agencies? All kinds of information is sometimes beyond the purview of, for example, the National Crime Agency, and sometimes the registrar, rather than a police agency, making the first approach may be a more intelligent way to get the information needed for an investigation. It would be helpful if the Minister clarified whether Companies House can act in concert with other law enforcement agencies to gather information that is needed to help to bring prosecutions.

Kevin Hollinrake: I am grateful for the right hon. Gentleman's remarks. The answer is yes, that is exactly what the legislation allows for: the risk-based flow of information between the registrar and law enforcement agencies. Of course, the power will be discretionary, so the registrar will determine when to exercise it, but it can be to request any information that she requires under legislation—both public and private information.

Question put and agreed to.

Clause 80, as amended, accordingly ordered to stand part of the Bill.

Clause 81

Registrar's notice to resolve inconsistencies

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Government amendment 13.

Clause 82 stand part.

Clause 83 stand part.

Government new clause 7—*Power to require businesses to report discrepancies.*

Kevin Hollinrake: Clause 81 enables the registrar to require a company to resolve an inconsistency where it appears that information contained in a document delivered to the registrar in relation to a company is inconsistent with any other records she holds, including records about other business entities or organisations such as limited liability partnerships and limited partnerships. Currently, the inconsistency resolution power is available only if there is an inconsistency between the delivered information and the information on the companies register.

Where the registrar suspects that information submitted to her is inaccurate, but that suspicion is based only on information that she holds but that is not published on the register, for instance information gleaned from law enforcement agencies—that is the point the right hon. Member for Birmingham, Hodge Hill just mentioned—she will be able to issue a notice to require the company to correct the mistake. The clause will strengthen the registrar's ability to ensure the register is accurate and reliable.

Government amendment 13 and new clause 7 are concerned with the identification and rectification of discrepancies between information that businesses, such as banks, lawyers or accountants, obtain in the course of their business relationships with customers, and information that the registrar curates. In our White Paper in February, the Government committed to expand current discrepancy reporting requirements to include discrepancies in director information and in registered office addresses. That would build on the discrepancy reporting that already occurs under the money laundering regulations in relation to beneficial ownership. It is a key part of our vision for Companies House reform that there are active and effective feedback loops from the private sector to help the registrar maintain the accuracy of the data she holds. This will benefit business and help protect personal information.

The power inserted by new clause 7 introduces a regulation-making power into the Companies Act 2006. Regulations made under that power can set out who must check for discrepancies and what information they check, beyond just discrepancies in relation to beneficial ownership information. The regulations can also be used to create offences for failure by those obliged to check for discrepancies to comply with those obligations.

Government amendment 13 omits section 1095A from the Companies Act. This power to resolve discrepancies in certain circumstances is no longer needed because of the wider power introduced by clause 82, which enhances and rationalises the registrar's powers to remove material from the register. Proposed new section 1094 of the Companies Act, as substituted by clause 82, gives the registrar the power to remove material on the register where it has not met proper delivery requirements or is unnecessary. The registrar could exercise that power on her own motion, or on application.

Clause 82 will strengthen the registrar's powers, enabling her to proactively clean up the register. The power is safeguarded by the requirement that the registrar may exercise it only if satisfied that the interest of the company or applicant in removing the material is not outweighed by any interest of other persons in the material continuing to appear on the register. That matches the test that the court has to apply, which is the focus of clause 83.

Clause 83 expands the range of people whose interests a court must take into account when considering whether to make an order to remove material that has legal consequences from the register. Currently, a court can only make an order to remove material if satisfied that the material is damaging to a company and removing the material outweighs the interests of any other person in the material in retaining it.

That test overlooks the fact that a person other than the company might have their interests affected by a filing—for example, a person whose name has been fraudulently registered as a director of a company with which the person in fact has no connection. Clause 83 amends section 1096(3) of the Companies Act so that the court must now also take into account the interests of an applicant, who may be different to the company, as well as the company.

Seema Malhotra: I have a few questions on the clauses. Clause 81, on the registrar's notice to resolve inconsistencies, would expand the powers of the registrar to identify inconsistencies by considering all records—it goes wider than just the information on the register. Any notice given would state the nature of the inconsistency and give the company 14 days to resolve it. Could I ask the Minister to clarify what will happen if a company exceeds this 14-day period?

On new clause 7 on the power to require businesses to report discrepancies, I want to understand how that might be operationalised. Would the registrar seek information from businesses, or would businesses be expected to do something without being requested to? It was not quite clear how the measure would be used. On businesses that might come under scope, the Minister mentioned financial services, but the proposed new section under new clause 7 refers to regulations imposing requirements on

"a person who is carrying on business in the United Kingdom".

Any company or business may be required to report discrepancies. It would be helpful to understand that point, as there is a fair bit of detail in new clause 7. I would appreciate the Minister's comments on that.

Clause 82 creates a new power for the registrar to remove information that was submitted to it and accepted despite not meeting proper delivery requirements. There may well have been reasons for the information being accepted. As the Minister mentioned in a previous debate, for some reason there may have been a minor issue that was considered not significant—I think he may have used the word "material"—and the information did not meet proper delivery requirements. Could I clarify whether the Minister would expect there to be any notification to directors or officers about material being removed? Would any note be made on the register as a record of material having been removed? It would simply be a matter of putting on a company's record that material was there and accepted even though it did not meet properly delivery requirements and was subsequently removed. It is not about there being a risk of a cover-up, with material being removed, but it is helpful to have an audit trail. Perhaps the Minister can outline how he envisages that power being used.

Clause 83 amends the Companies Act 2006 so that, as regards material being removed, the court may take into consideration whether the interests of an applicant outweigh the interest of other parties. Can I clarify how this would be used? Would it be used when a third party did not believe that it was appropriate to remove the material? Who else might the applicant be? I am trying to understand when it might be used and a case might come to court to weigh the pros and cons in terms of parties' interests in having that material removed. It would be helpful to have some clarity on that.

2.15 pm

Alison Thewliss (Glasgow Central) (SNP): I have some questions about new clause 7. I am reading through it and trying, as I have done with many of the amendments, to put myself in the scenario of being the person who is carrying on business in the United Kingdom. It says that as that person, I am obliged to

"obtain specified information about a customer (or prospective customer)…before entering into a business relationship with them, or…during a business relationship with them"

and I have to identify any discrepancies and report them to the registrar. I get that: if I do that and I see a discrepancy, I have an obligation to report it. It feels as

[Alison Thewliss]

though the Minister is bringing forward a very soft version of a failure to prevent offence, which of course I am fine with.

I want to double-check something, however. The new clause goes on to talk about offences that might be created for failure to comply with the requirements, and I want to know what happens if I, as the person carrying on the business, do not spot a discrepancy. How is it ascertained whether I did not spot the discrepancy—whether it was a genuine mistake on my part—or whether I failed to report something that somebody else later picked up?

We are talking here about convictions, punishable as set out near the end of the new clause, and I am curious about how the regulations will work in practice. If I do not spot a discrepancy and report it, how does the law know that I did not spot it? Perhaps I ignored it because I thought it was not relevant or important, or perhaps I did it deliberately. If I come back after the fact and say, "I didn't report it because I didn't see it," or "I didn't report it because I didn't want to," those are two very different things.

I do not quite understand how the new clause will work. Some people might think it is good and beneficial to go clyping and grassing up people who do not comply, and that is fine, but it is quite a different thing if a discrepancy has been overlooked. I would like the Minister to explain how that will work in practice.

Kevin Hollinrake: I will first take the latter point, which covers some of the shadow Minister's points as well. There will be more detail in secondary legislation about how new clause 7 is expected to operate, but it is quite reasonable to think that third party business entities will understand how this should work. Within that, we would expect there always to be a reasonableness defence if an error was made or something was done in good faith. We would not expect a penalty to be applied in that case, but there will be more detail on that in secondary legislation.

The shadow Minister asked what would happen if an organisation failed to comply with a notice within the 14-day period that it is given to respond. There is an unlimited fine, potentially, for failure to comply. Other situations might even lead to somebody facing a prison sentence of up to two years, in certain instances. A lot would depend on the circumstances involved. That also relates to what the hon. Member for Glasgow Central asked.

The shadow Minister asked for more detail about how the relationship between the registrar and third party companies would work. This does not just refer to the financial sector; it also refers to the legal sector. It would pertain to any organisation that is supervised by money laundering regulations. I think that is the extent to which companies would be bound by the rules on checking discrepancies.

The shadow Minister asked whether there would be a flag if a record was removed. Clearly, there will be a red flag for the registrar themselves, depending on the reason why that record has been removed, and that may be something we cover in further detail in secondary legislation. My immediate reaction is that we would not want red flags to be set against a company that had made an honest mistake, because that might unreasonably set some hares running. I am a little concerned that that might happen if we did as the shadow Minister described.

Seema Malhotra: For clarity, perhaps I can distinguish the difference between a red flag and a record of what has happened. We keep a record of what happens, but a red flag is a cause of concern.

Kevin Hollinrake: Yes. The registrar will have the ability to annotate the register as is appropriate in the regulations we intend to make using the power found in section 1080.

Question put and agreed to.

Clause 81 accordingly ordered to stand part of the Bill.

Clause 82

ADMINISTRATIVE REMOVAL OF MATERIAL FROM THE REGISTER

Amendment made: 13, in clause 82, page 65, line 21, at end insert—

"(6) Omit section 1095A (rectification of register to resolve a discrepancy).".—*(Kevin Hollinrake.)*

This repeals section 1095A of the Companies Act 2006 as in practice the only circumstances in which material would be removed from the register under that section are caught by new section 1094 (inserted by clause 82 of the Bill).

Clause 82, as amended, ordered to stand part of the Bill.

Clause 83 ordered to stand part of the Bill.

Clause 84

INSPECTION OF THE REGISTER: GENERAL

Kevin Hollinrake: I beg to move amendment 106, in clause 84, page 65, leave out lines 40 and 41 and insert—

"sections 64(6A), 67(1A), 73(7), 75(4A), 76(5A), 76A(9) and 76B(9) (which confer powers to suppress a company's name that it has been directed or ordered to change);".

This is consequential on NC34.

The Chair: With this it will be convenient to debate Government new clause 34—*Requirements to change name: removal of old name from public inspection.*

Kevin Hollinrake: Members of the Committee might remember that when we discussed the provisions concerning company name change directions last Tuesday, there was much debate about the 28-day compliance period, a topic on which I have since written to the hon. Member for Feltham and Heston. It is fair to say that we might not have exactly achieved a meeting of minds on that occasion, but we will try again today.

I am grateful to the hon. Members for Feltham and Heston and for Aberavon for withdrawing their amendments in the hope that we could get to a place we agreed on. I think we all agree that a company should have a reasonable amount of time to change its name and that we would prefer compliance rather than an imposed solution involving the registrar defaulting the company's name to its rather anonymous company registration number.

Compliance will, quite legitimately, take some time and effort on behalf of the company. Notice of a proposed change will have to be given to shareholders, and those representing not less than 75% of the total voting rights of eligible shares will have to agree to the change. That is why it is the Government's position that a company should have a minimum period of 28 days to change its name following a direction, with the possibility to ask the Secretary of State to extend that period where necessary.

Hon. Members are right, however, to be concerned about the harm that can flow from offending names. Where the Secretary of State has determined it appropriate to issue a direction, it will almost invariably be the case that the name's presence on the register risks causing harm to users. That is why clauses 17 and 18 give the registrar new powers to remove a company name from the publicly accessible part of the register at the point a direction is issued, so any ongoing harm would be curtailed immediately at that point.

The earlier amendments have very helpfully highlighted for us that this ability to remove an offending name from the publicly inspectable part of the register is not available to the registrar in respect of the name change direction and order provisions that already exist in the Companies Act 2006—but it ought to be. New clause 34 addresses that issue, ensuring that the registrar will have the ability to suppress the name and the subject of a direction or order under all circumstances under which one might be issued.

Government amendment 106 ensures that the general right for people to inspect the register does not extend to offending names that have been suppressed. The effect is that we strike a fair balance between allowing companies adequate time to comply with a name change direction and protecting users of the register from harm that might arise from the offending name remaining visible while the company goes through its internal name change process. I hope hon. Members will welcome these amendments, and I commend them to the Committee.

Seema Malhotra: I thank the Minister for his remarks, and wish to speak to this group on behalf of my hon. Friend the Member for Aberavon as well. I must say that these provisions are not easy to follow, so forgive me for feeling like I will need to reread *Hansard* in a darkened room in order to completely follow what the Minister has said.

Dame Margaret Hodge (Barking) (Lab): I do not think any of us understood a word of that. It would be really nice if the Minister could explain it in black and white, because I just could not get what that was getting at at all.

Seema Malhotra: I give way to the Minister.

Kevin Hollinrake: In layman's terms, it means that if a company is required to change its name because it could cause harm, the registrar can immediately suspend that name from the register—as we discussed last week—so it cannot cause harm.

Seema Malhotra: I give way to my right hon. Friend the Member for Barking.

Dame Margaret Hodge: Perhaps the Minister could also explain how that is different from what we agreed last week.

Seema Malhotra: I thank my right hon. Friend for her question, which the Minister may wish to answer before I continue my remarks.

Kevin Hollinrake: It extends the extent. The registrar did have that power to a certain degree for certain names, but they did not have it in every circumstance, so the Bill extends its right to use the power. Basically, in any situation where a name change is required because it could cause harm to the public, the registrar can immediately suspend that name from the register so that it cannot cause harm in any circumstance.

Seema Malhotra: I am grateful to the Minister for his intervention.

The clauses on the register include important provisions related to information sharing and the parameters of information that may be made available to the public. They are hugely important on a number of levels, facilitating access to relevant information for law enforcement and, more broadly, building public trust and confidence in our laws on economic crime. As drafted, the Bill appears to lean much more heavily towards restricting the availability of information to the public, and as we have said, an explanation of the Government's thinking and rationale on these issues would be helpful for the deliberations of the Committee.

Clause 84 deals specifically with exemptions from requirements to make information publicly available. Exempting information from public disclosure pending verification by the registrar is a reasonable provision, since it could be argued that such information might otherwise give a misleading or inaccurate picture of the registry if certain information released to the public was ultimately excluded on the grounds that it could not be verified.

Clause 84 also deals with the names of companies registered incorrectly or used for criminal purposes. As the explanatory notes confirm, the intention is to prevent such information from being disclosed to the public, but a slightly clearer explanation of those provisions would be helpful. It seems reasonable in most cases to exclude information submitted in error to the registrar. On company names used for criminal purposes, perhaps the Minister could explain whether the intention of clause 84 is to prevent the disclosure of information relevant to a specific ongoing criminal investigation.

2.30 pm

Kevin Hollinrake: We are not debating clause 84 yet, are we?

Seema Malhotra: Have I jumped? That is my fault. I have just checked the grouping, and I see that we are discussing clauses 82 and 83. In which case, I will stop there.

The Chair: We are debating new clause 84 as well.

Seema Malhotra: I thought it was clause 84 stand part, clause 85 stand part and clause 86 stand part.

The Chair: Sorry, I am getting confused.

Liam Byrne: On a point of order, Ms Elliott. I would be really grateful if you could just clarify where we are in the debate.

The Chair: We are debating Government amendment 106 to clause 84, with which it is convenient to consider Government new clause 34. It is this light; I am afraid I am reading eights for threes. I am terribly sorry.

Dame Margaret Hodge: The light is terrible.

The Chair: It is. I do apologise. So are we clear?

Seema Malhotra: That is clear. I was slightly confused by the grouping, but that is absolutely clear, and I will continue my remarks when we come to the next group.

Kevin Hollinrake: I have nothing further to add.

Amendment 106 agreed to.

Question proposed, That the clause, as amended, stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 85 and 86 stand part.

Kevin Hollinrake: Clauses 84 to 86 all make amendments to the provisions in the Companies Act 2006 about rights to inspect the register and obtain copies of the material on it.

Section 1085 of the Companies Act requires the registrar to make company information available for public inspection. Clause 84 makes consequential technical amendments to the section resulting from the various amendments to the Companies Act that are made elsewhere in the Bill—*[Interruption.]*

The Chair: Order. We need some clarity. We are in the middle of a Committee sitting and it is not appropriate to speak from beyond the bar. May I also say that we need some light? *[Interruption.]* Order. We will resume.

Kevin Hollinrake: I can see my notes very clearly. It is absolutely fine.

The amendments qualify the inspection rights in section 1085 of the Companies Act to ensure that certain information cannot be inspected. The information in question comprises company names that have, for example, been the subject of a registrar name- change direction because of concern that the name's use is for criminal purposes.

The technical amendments to the Companies Act made by clauses 85 and 86 improve the integrity of the companies register and prevent the abuse of personal information held on it. Clause 85 makes amendments that relate to copies of material on the register, clarifying that the right to require a copy of material on the register applies only to materials that are available for public inspection. The clause also removes the option that an applicant has for submitting applications to require a copy of an enhanced disclosure document in paper form or electronically. It allows the registrar to determine the form and manner in which copies of registered material are to be provided under section 1086 of the Companies Act.

Seema Malhotra: Clause 84, as I alluded to earlier, deals with names of companies registered incorrectly or used for criminal purposes. The explanatory notes confirm that the intention is to prevent such information from being disclosed to the public. Excluding information submitted to the registrar in error seems reasonable, as I mentioned earlier, in most cases. With regard to company names used for criminal purposes, I would be grateful if the Minister could clarify whether the intention behind clause 84 is to prevent the disclosure of information relevant to a specific criminal investigation that may be ongoing. I am sure that we all agree that sensitive information should not be disclosed if doing so would compromise an active investigation by law enforcement agencies. If, however, all investigations and, where relevant, prosecutions and court proceedings have reached their conclusion, there might be an argument for public disclosure of said information about the company in question to then be permitted.

If it is the Government's intention to prevent disclosures of company names used for criminal purposes only in circumstances where it is absolutely necessary to do so, perhaps the wording of clause 84, which is currently quite broad, may be usefully amended to reflect that. I am also raising those concerns on behalf of my hon. Friend the Member for Aberavon. Perhaps there could be a specific provision enabling information on such company names to be disclosed to the public once any criminal proceedings are over in cases where there may be a public interest to do so. It would be helpful if the Minister could set out the Government's thinking on those issues.

Clause 85 amends the Companies Act to give more powers to the registrar, for instance in relation to the format in which information may be provided. The provision enabling the registrar to require an application for access to information to be submitted electronically is broadly welcome, inasmuch as it supports the wider objective of delivering more streamlined and effective services, although it may be helpful for the Minister to clarify when he expects a fully electronic process for members of the public to request and access information held by the registrar to be up and running.

Clause 86 extends the scope for information, including information of the kind covered by previous clauses, not to be disclosed by the registrar. The more general question of what information should be made publicly available, and the criteria on which those decisions are made, will be discussed shortly in relation to the next clause, but I would be grateful for the Minister's comments.

Kevin Hollinrake: Clause 84 relates to issues that we debated earlier. The information in question comprises company names that have, for example, been the subject of a registrar name change direction because of a concern that the name's use is for criminal purposes. I do not think that there is anything different here from what we have already discussed. It deals only with the exception to the general rule of making the entire

register available to the public where the registrar uses her discretion to take a name off the register. It is not related to police investigations; she would suppress the name of a company for other reasons.

Question put and agreed to.

Clause 84, as amended, accordingly ordered to stand part of the Bill.

Clauses 85 and 86 ordered to stand part of the Bill.

Clause 87

PROTECTING INFORMATION ON THE REGISTER

Seema Malhotra: I beg to move amendment 114, in clause 87, page 68, line 7, at end insert—

'(7A) Regulations under subsection (1) above may not prevent the registrar from making available for public inspection information mentioned in paragraphs (a) to (d) unless there are compelling reasons for the information to be withheld.

(7B) For the purposes of subsection (7A) above, "compelling reasons for the information to be withheld" include circumstances in which the registrar may decide that public release of the information may result in—

(a) a serious threat to the personal safety and security of the individual to which the information relates;

(b) adverse effects on any investigation by an appropriate officer of a suspected offence under this Act;

(c) adverse effects on the ability of an appropriate officer to impose a penalty for any offence under this Act; or

(d) a clear risk to the national security of the UK;'.

This amendment seeks to expand the registrar's powers to release information about the Companies House register, where it is in the public interest to do so, while also enabling personal information relating to an individual to be withheld in cases where there are compelling reasons to do so.

It is a pleasure to speak to the amendment, tabled in my name and that of my hon. Friend the Member for Aberavon. It appears at least possible that the Government could place strict limits on the rights of journalists to request information, for example, in connection with investigations that may well be firmly in the public interest. Disclosures of that kind have been seen in the Panama papers and the Paradise papers. Those are just two examples of how important it is that legitimate journalistic access to information held by the registrar must be protected.

It is with those concerns in mind that we have tabled amendment 114. Its aim is to ensure that there is a default presumption in favour of disclosing information in response to a request, whether from a journalist or an ordinary member of the public, and to ensure that legitimate requests are refused only when there is clear evidence of a compelling reason to do so. We believe that the powers granted to the Secretary of State under clause 87, as drafted, are simply too broad. We therefore strongly urge the Government to support the sentiments in amendment 114.

Kevin Hollinrake: I am not sure that what we are trying to do here is relevant to the matter that the hon. Lady raised. Amendment 114 would prevent regulations being made to allow the registrar to make information unavailable for public inspection under new section 1088 unless there are compelling reasons for the information to be withheld, which this amendment outlines.

Of course, there are instances where disclosure of information on the public register is inappropriate—I think we have all agreed that through the course of this debate—for instance, where it could lead to an increased risk of fraud and identity theft, or put individuals at risk for some reason, such as in cases of domestic abuse. There are limitations in the extent to which existing provisions in the Companies Act 2006 allow personal information to be withheld from the public register. We want to expand that to ensure that personal information is properly protected.

Clause 87 amends the Companies Act to allow individuals to apply to the registrar to suppress information relating to an individual or address and prevent it from being disclosed or made available for public inspection. That will include their residential address, signature, business occupation, and date of birth in old documents.

Dame Margaret Hodge: This is another opportunity to raise the issue, to which I have not had an answer, of Fedotov. That is how he kept his name off the— *[Interruption.]* It is. We just need an answer.

Kevin Hollinrake: The answer is that any person applying under the exemption will have to prove to the registrar that there is sufficient evidence of a serious risk of violence or intimidation to protect their names or information. If necessary, the registrar will refer cases to an appropriate law enforcement agency and will have the power to revoke protection if information comes to light to suggest that false evidence has been provided.

Does the right hon. Lady honestly think that a registrar, who has a duty and responsibility to protect the integrity of the register, would assist an oligarch, for example, in trying to hide information? I think we are into conspiracy theory territory here, which I do not think will get us very far.

Dame Margaret Hodge: In general, I would agree with the Minister. However, the truth is that Fedotov did manage that. If the Minister could provide an explanation of why and how that happened, then we might get greater comfort in this Committee that those circumstances will not arise again.

Kevin Hollinrake: I committed earlier to look into that case, and I will, but the Usmanov case, as I said, was a completely different case. The whole reason why we are bringing forward this legislation is to improve transparency and fight economic crime. The right hon. Lady's indication that perhaps the registrar might be complicit with Russian oligarchs, who may be guilty of economic crime, is not really plausible.

These are reasonable provisions for people whom we suggest might be at risk of harm if we publish that information, and they have to demonstrate that that harm is a salient risk. They are reasonable provisions that would be used fairly sparingly in the main, but nevertheless there have to be those kinds of provisions where somebody is at risk of harm. That does not exempt the applicant from providing the information to the registrar, where it is still required by legislation, but it will no longer be displayed publicly. Critically—and this should answer the right hon. Lady's point—information would still be available to law enforcement agencies and other public bodies. It would not be appropriate to limit the registrar's ability to protect personal information in the way proposed by the amendment.

2.45 pm

Currently, there is a mechanism under the Companies Act 2006 for individuals to apply to have all of their personal information protected if they are at risk of harm. Regulations specify that an application can be made if the applicant reasonably believes that if their information is disclosed by the registrar, the activities of that company—or one or more of its characteristics or personal attributes of the applicant when associated with that company—will put the applicant or a person living with the applicant at serious risk of being subjected to violence or intimidation. One example is where an individual is a person with significant control of a company involved in animal testing.

The Government consider that the compelling reasons proposed would have merit where a person applies to protect all of their personal information, in addition to the grounds in the existing regulations. Under new section 1088(2)(b) as drafted, the grounds on which an application may be made can be specified in regulations. The regulations will be subject to the affirmative procedure, so that Parliament can have full scrutiny of the detail. I hope that this provides assurance to Members.

Seema Malhotra: I will not push amendment 114 to a vote. It is an area where there is probably further debate to be had but, having reflected on that with my hon. Friend the Member for Aberavon, 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: As we have discussed, there are instances where disclosure of information on the public register can lead to an increased risk of fraud and identity theft or put individuals at risk for other reasons, such as in cases of domestic abuse. The clause addresses this by amending certain sections of the Companies Act 2006 that confer or otherwise relate to the power for the Secretary of State to make regulations, permitting applications for personal information to be suppressed or protected, which means that the information is not made available on the public companies register.

Seema Malhotra: I wish to make a few remarks. I take on board the Minister's comments, and we all agree about instances where there may be domestic violence reasons, for example, or other security and personal information reasons for why an individual's home addresses and so on should not be disclosed. As discussed earlier, transparency plays a vital role in building public confidence in our ability to crack down on fraudulent or other criminal abuses of our companies legislation. Arguably, clause 87 grants an extraordinary degree of power to the Secretary of State to specify in regulations not just what information may be disclosed to the public, but who might be permitted to request information in the first place and on what grounds. It is quite a long clause. We had a debate before on the questions about safeguards, some of the uses of those powers and the extent to which there may be information that is not publicly available that ought to be, in the public interest. I would be grateful for a further discussion of the matter. I will work with my hon. Friend the Member for Aberavon to put together a note for the Minister with some more specific points to which it would be useful to have responses before Report.

Kevin Hollinrake: I just want to reiterate that all protected information, whether suppressed or not, is available to law enforcement agencies. That is the critical point. Individuals who seek to use these exemptions have to provide sufficient evidence of a serious risk of violence or intimidation, and that protection can be revoked if new information comes to the registrar's attention that she feels casts doubt on the original assertions.

Question put and agreed to.

Clause 87 accordingly ordered to stand part of the Bill.

Clause 88

Analysis of information for the purposes of crime prevention or detection

Dame Margaret Hodge: I beg to move amendment 119, in clause 88, page 68, line 15, leave out from "must" to the end of line 17 and insert

"analyse information within its possession with a view to preventing or detecting crime."

The Chair: With this it will be convenient to discuss the following:

Amendment 120, in clause 88, page 68, line 17, at end insert—

"(1A) In carrying out the analysis the registrar must make use of its power to require additional information under section 1092A where the registrar considers that such additional information may contribute to the prevention or detection of crime."

Amendment 116, in clause 88, page 68, line 17, at end insert—

"(1A) As part of the analysis under subsection (1), the registrar must carry out a risk assessment to identify where the information it holds might give rise to a matter of concern.

(1B) Where the assessment identifies a matter of concern, the registrar must—

(a) carry out whatever further analysis it considers necessary; and

(b) share any evidence of unlawful activity it identifies with the relevant law enforcement agency.

(1C) For the purposes of this section, a "matter of concern" includes—

(a) inaccurate information;

(b) information that might create a false or misleading impression; or

(c) evidence of economic crime."

New clause 37—*Duty to check person of significant control status*—

"(1) The Companies Act 2006 is amended as follows.

(2) After section 790LP (Offence of failing to comply with sections 790LI to 790LN) insert—

"790LQ Duty to check person of significant control status

(1) This section applies when a registrable person's identity is verified under section 1110A(1) and a risk assessment carried out under section 1062A(1A) has identified a matter of concern in relation to the registrable person.

(2) The registrar must take steps to ensure that the registrable person whose identity is being verified is a person with significant control over the company.""

New clause 38—*Risk-based examination of accounts of dissolved companies*—

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1062A (analysis of information for the purposes of crime prevention and detection) insert—

"1062B Risk-based examination of accounts of dissolved companies

(1A) In a case where the registrar's risk assessment under section 1062A(1A) has identified a matter of concern in relation to a dissolved company, the registrar must examine the accounts of the dissolved company with a view to establishing whether any economic crime has been committed.

(1B) The registrar must share details of any evidence gathered under subsection (1A) with the relevant law enforcement agencies.""

New clause 41—*Disclosure of control of 5% or more of shares in a public company—*

"(1) This section applies to shareholdings in public companies as defined by section 4 of the Companies Act 2006.

(2) A person who controls 5% or more of the shares in a public company must declare this fact to the registrar.

(3) The duty in subsection (2) applies whether the person controls the shares directly or indirectly.

(4) The registrar may impose a penalty on any person who fails to comply with the duty in subsection (2)."

This new clause would require all persons controlling 5% or more of the shares in a public company to declare the total amount of their shareholding to the registrar. This would, for example, require a person controlling shares through multiple nominees to declare the total number of shares they control.

New clause 42—*Verification of persons controlling 5% or more of shares in a public company—*

"(1) This section applies where—

(a) a person has disclosed to the registrar control of 5% or more of the shares in a public company under section [Disclosure of control of 5% or more of shares in a public company], and

(b) the registrar has identified a matter of concern under subsection 1062A(1A) of the Companies Act 2006.

(2) the registrar must—

(a) verify the identity of that person, and

(b) verify the number of shares that person claims to control."

This new clause should be read together with Amendment 116 which inserts subsection 1062A(1A) into the Companies Act 2006. It would require the registrar to verify both the identity and the shareholding of a person who controls 5% or more of shares in a company where the registrar's risk-based analysis set out in Amendment 116 has identified a matter of concern.

New clause 43—*Disclosure of shares held by nominee—*

"(1) This section applies to public companies as defined by section 4 of the Companies Act 2006.

(2) Any person holding shares in a public company as nominee for another person must disclose this fact to the registrar.

(3) The registrar may impose a penalty on any person who fails to comply with the duty in subsection (2)."

This new clause would require shareholders of a company to disclose the fact that they are acting as nominees. Failure to comply could result in a penalty.

Dame Margaret Hodge: I am hoping I can see, because the light is so bad—

Kevin Hollinrake: What a shame!

Dame Margaret Hodge: The Minister is delighted. All the provisions are grouped together, so he will have to listen to me forever. The lighting is not much better, but we will see how we go—I know we are saving energy.

The provisions that we are discussing all sit together. I will start with amendments 119 and 120, with which we are trying to strengthen the duties, rather than the powers, of Companies House. During the course of the Committee's discussion of the Bill, we have considered how UK corporate structures and vehicles are used to move, hide and launder money. When the Bill is enacted, although I hope that it will be amended to strengthen the nature of the information we get by strengthening the supervision of company service providers, Companies House will hold a wealth of data.

Amendment 119 seeks to make it compulsory for Companies House to analyse that data to prevent and detect crime. By removing some words, it would be tougher than the current wording of the clause, according to which Companies House could analyse that data, but does not necessarily have to. The clause says

"as the registrar considers appropriate",

and, without the amendment, Companies House could and will argue that it does not consider analysis "appropriate". We would remove that provision and say that the registrar must use the data that has been made available to her to see whether or not it can support us in our efforts to avoid crime.

I have one other thing to say about this issue. We have talked a lot in the debate about corruption and the way in which it has impacted the UK economy. As we discuss the Bill further, we have to remember the impact it will also have much more widely. According to the ONE Campaign's latest estimate, around $1 trillion is lost every year to corruption in developing countries. A lot of that comes through the abuse of corporate structures that we have in the UK. That is just one example that demonstrates how UK corporate structures facilitate theft and corrupt activity.

I know that that is under the current regime and that much of this should go when we get to our new regime. However, I will give another example of how the abuse of UK corporate structures led to money, again, coming out of Russia, which is the bottle laundromat—another of these laundromats—that was uncovered by Transparency International. British companies were, again, at the centre. It was a money laundering operation from 2014 to 2016 where $820 million came out of Russia. Again, it involved—classically—a network of shell companies, many of them UK firms, that apparently sold bottle-moulding machines to Russia.

Kevin Hollinrake: The right hon. Lady raises some important cases, and she is right to do so. Is that not exactly why we are trying to do this in this way? There are 4.5 million companies registered in England. Around 700,000 companies are registered every year, or 2,000 a day, and 400,000 are dissolved every year. If she is asking Companies House to analyse every single company—that is exactly what her amendment says—to determine risk, she is asking too much of Companies House and she will miss the important needles in the haystack that she refers to.

Dame Margaret Hodge: Were I asking that, that would be unreasonable but if the Minister takes all my amendments together, he will see that they and others talk about a risk-based assessment of the available data.

Kevin Hollinrake: The amendment does not say that. It says that

"the registrar must carry out a risk assessment",

not a risk-based approach. There is a big difference in terms of what the right hon. Lady is asking for.

Dame Margaret Hodge: But when we come to the new clauses, which we will discuss later, they say "risk-based". It is a risk-based assessment. Perhaps the Minister could explain what the difference is.

Kevin Hollinrake: The amendment says

"a risk assessment to identify where the information it holds might give rise to a matter of concern."

That certainly says to me that a risk assessment would be required for every company. To me, a risk-based approach would identify various pieces of information, and Companies House would act on that information and determine whether the risk is from companies, directors or persons of significant control and act on that. That is our approach; the right hon. Lady's approach is moving away from that.

Dame Margaret Hodge: The Minister is misinterpreting our approach. I am sorry if he reads it that way, but I agree that we are not asking for 100%. He calls it a risk-based assessment; I call it a risk assessment. Apologies for the difference in language.

Liam Byrne: If we were having this debate in my constituency, my constituents would say to me and, indeed, to the Minister, "We want to hire a police officer to stop crime." If we look at a definition of what a police officer does, they maintain law and order in local areas, prevent crime, reduce fear of crime and improve the quality of life for all citizens. We want Companies House to stop economic crime and that is what my right hon. Friend's amendments seek to achieve.

Dame Margaret Hodge: And presumably the policeman does not knock on every door.

Kevin Hollinrake: Precisely.

Dame Margaret Hodge: At the moment, the Bill says—I can't read it because there is no bloody light! It is a thing that as you get old, your eyes aren't brilliant:

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

We are attempting to take that wording out of the Bill to make it a duty, because otherwise we know from the other enforcement agencies and the work of other Government agencies that unless clearly directed, the real work would not be done. There would be an excuse. They would be busy doing something else. This is their key proactive role. We can go on and on about it during the course of the Bill, but I assure the Minister that the registrar should do it in a risk-based way. She should not do it, as the Bill says, as is appropriate; she should just do it. That is really the first thing.

I will quickly describe the bottle laundromat. The Minister and I are very familiar with all the stories, but other members of the Committee are not, and the stories are pretty shocking. Every time we hear another one, it is shocking. The stories reinforce the justification for the sort of interventions that Labour Members want to include in the Bill.

3 pm

British companies were at the centre of a money laundering operation that took $820 million dollars out of Russia under the pretence of providing bottle-moulding machines to Russia. In many of the cases, the invoices were completely phoney—no bottle-moulding machines were delivered to Russia in the end. Even when that did happen, the prices were so inflated that the process became a mechanism to take money out of Russia.

In six days in November 2014—this is where Britain comes in—one UK company, Bexton Eurotrade Ltd, which was founded in the UK in 2013, took more than $61 million for four deals. The company had £442 in the bank. It evaded UK law by stating that the beneficial owner was an opaque company on Cook Islands. It is all part of a constant stream.

A foundation that controlled Bexton and 13 further UK shell companies was based in the Cook Islands. Who was that signed off by? It was signed off by one of these company services providers: Stephen Glen Cox. He is a UK resident. He is all over Google. Anyone who googles him now will see him offer his services. He has signed hundreds upon hundreds of limited partnerships and has never, ever been registered for AML supervision. That is just another story, and one that has perhaps not been as prevalent as others.

Stephen Glen Cox broke UK law; Companies House and the enforcement agencies did nothing. The people who uncovered the scheme were Transparency International. It should not have been that organisation; it should have been the agencies. We need to get the right enforcement, the right investigation, the right detective work and the right provisions in place, and we are proposing amendments that would make the Bill stronger. This is not about words, but about real things that will have an impact.

Amendment 116 sets out the context. The amendment—I will not read it out, but I will set out its intention to the Minister, if that is helpful—requires Companies House to conduct a "risk assessment". Is that okay?

Kevin Hollinrake: No.

Dame Margaret Hodge: I think this is about a different interpretation of words.

The amendment would require Companies House to conduct risk assessments of the information and data it holds on the register for the purposes of the prevention and detection of economic crime. The amendment also creates a basis for new clauses 37 and 38, to introduce an obligation on Companies House to use all the data it collects to identify where economic crime risks lie.

I genuinely think we are quarrelling about words, not about what we want to do. On the basis of that risk assessment, or whatever word the Minister wants to use, Companies House would then decide when to use its powers proactively.

Interestingly enough, my wonderful staff have looked it up, and everybody else uses these terms. We are not alone in this. The Financial Action Task Force standards talk about risk assessments. It talks about a "risk-based approach". Is that language better for the Minister?

Kevin Hollinrake: Much better.

Dame Margaret Hodge: It means the same to us—I think the Minister is really being a little bit pedantic here. If we bring the amendments back on Report with the words "risk-based", perhaps we will have a better chance of getting them through.

The risk-based approach is central to the implementation of FATF's recommendations. The UK's AML regime and the Council of Europe use a risk-based approach, as does the private sector. I want to use a risk-based approach, and so does the Minister, so why do we not just get on with it?

Kevin Hollinrake: We do, and it is exactly what the clause states:

"The registrar must carry out such analysis of information within the registrar's possession as the registrar considers appropriate for the purposes of preventing or detecting crime."

In other words, the registrar identifies a red flag and then does an investigation. The right hon. Lady's amendment 116 says:

"the registrar must carry out a risk assessment to identify where the information it holds might give rise to a matter of concern."

That is a non-risk-based assessment.

The Chair: Order. Minister, may I intervene for a second? You will have time to respond to all this in the debate, but that is a very long intervention.

Dame Margaret Hodge: I have to say we disagree, but I will come back to this issue. I think our proposals strengthen the Bill.

I tabled my amendments to clause 88 because I do not support the wording of

"as the registrar considers appropriate".

I have to say to the Minister that we discovered in this morning's sitting that the company registrar has so far registered 3,000 properties for a register that has now been in place since August. In three months, she has done 3,000, but there are 138,000 to deal with. At that rate—if she does 12,000 a year—she will be there till doomsday, so putting a little bomb underneath her to ensure that she takes action is important.

Liam Byrne: My right hon. Friend is making a brilliant speech. If anything, the Minister has caused more alarm than he might have intended this afternoon by referring to the language in the Bill that says the registrar must take account of the information that she holds. There is no way that we would ask a police officer to police Hodge Hill simply with reference to the information that that police officer happens to hold. We would ask the police officer to look at the crime environment in the constituency as a whole, taking account of all kinds of perspectives, not simply the information that he or she happened to have in their little black book.

Dame Margaret Hodge: I will move on to new clause 37, which has the aim of checking that the stated person of significant control really is the person who controls the company. Powers to get information, to reject documents, to require information and to remove documents all sit in the Bill. The new clause would ensure that, through a risk-based assessment—I just reiterate that for the Minister—Companies House would proactively check that the person named as the PSC was the PSC in reality. Current legislation requires the ID verification of a company owner, but not the verification of their status as a company owner, so the risk remains that nominees will continue to be put forward as owners of companies despite the real control being elsewhere. The risk is heightened if the Minister does not move to ensure that company service providers are properly regulated, supervised and vetted before the whole system comes into force.

In the current system, there are endless examples that demonstrate the extent of the problem that the Minister and the Government are trying to tackle—we are trying to contribute to that process. One is the famous dentist in Belgium. From an interrogation of the Companies House register, we know that five beneficial owners control more than 6,000 companies, which is a huge red flag. Some 4,000 of them are under the age of two, and 400,000 companies—almost 10% of the total—still do not declare a person of significant control. We have the Azerbaijan laundromat example, where a lorry driver in Baku was named as the person of significant control and had no idea that kleptocrats from Azerbaijan were taking all the money out of the banks and money laundering it elsewhere.

There is one filing in Companies House for which I thought I would name the person of significant control. The company is called Global Risks Reduction Funding Ltd, and the name is listed as—I will take a deep breath—

"Neutral-Claimant-Federal-Witness-Director-Captain-Postmaster-Bank-Banker-Plenipotentiary-Notary-Judge-Vassalee For The Vessel-Phouthone-Thone: Siharath."

I do not think anybody has questioned that as the person of significant control. The whole thing is absurd.

An important point for the Minister is that, in 2019, Transparency International did a quick Google search and found 23 active company service providers that were offering the service of nominee persons of significant control—that was one quick search of one directory. When Global Witness undertook research on Scottish limited partnerships, it found that 40% of the beneficial owners of Scottish limited partnerships were either a national of a former Soviet country, or a company incorporated in the former Soviet Union.

Alison Thewliss: I have been tracking for some time the number of times when a person of significant control for Scottish limited partnerships has not even been registered. Does the right hon. Lady agree that it is ridiculous that there are still 201 companies for which a person of significant control does not exist at all?

Dame Margaret Hodge: Yes. The law is being broken but nobody is pursuing those who are guilty.

These are all reasons for closely monitoring data on persons of significant control. The measure would simply put a duty on Companies House to be proactive and to check the status of the person named on a risk-based basis, not just via their personal details.

New clause 38 deals with dissolution, which has been raised with me by a number of stakeholders. We know of numerous instances of bad people dissolving companies for nefarious purposes. The new clause would ensure that the registrar looks at the accounts of a company seeking to dissolve to ensure that no fraud or other crime has occurred. If the registrar found such cause for concern, she would have to pass the information on to relevant enforcement agencies.

[Dame Margaret Hodge]

We are all very familiar with the phoenixing of companies and the role that that practice has played in facilitating fraud. I have chosen as an example the case of Rodney and Pauline Williams, which is typical. They ran a company called Curio Bridal Boutique Ltd. They made false representations to take money out of the company and put it into another company in anticipation of winding up Curio Bridal Boutique. They took £111,000, of which they put £42,000 into the pockets of their own family. They were detected and convicted, but sadly the successful detection of such cases is all too rare and the practice happens all too often.

The Troika Laundromat—another of the laundromats that has hit us over the last 10 years or so—is another example of where a leak of documents showed how one of Russia's largest investment banks, Troika Dialog, was central to the channelling of billions of dollars out of Russia. That leak covered 1.3 million transactions. It involved more than 1,000 UK limited liability partnerships, and it was found that the UK had been handling nearly £10 billion of dodgy Russian money. One UK-based company was found to have made payments totalling £360 million, although it filed accounts each year and dared to declare itself dormant. It then dissolved itself in 2014. That company was called Stranger Agency LLP.

3.15 pm

Another company in that leak, Roberta Transit, never filed accounts at Companies House after it was set up in 2007. A year later, the agents who acted as members applied for it to be struck off, but in a three-month period, they handled £36 million of transactions before liquidation. They actually handled £139 million after liquidation. Our new clause would ensure that there is a duty on the registrar to examine the accounts of dissolved companies. It would just to put a little brake on practice.

New clause 41 would require all persons controlling 5%—we have brought the figure down—or more of the shares in a public company to declare the total amount of their shareholding with the registrar. That would, for example, require a person controlling shares through multiple nominees to declare the total number of shares they control. We know that a lot of Russian kleptocrats, in particular, use the 25% device as a way of hiding—they come in at just under the 25% and therefore get away from our regulations. New clause 42 would require the registrar to verify the identity and shareholding of a person who controls 5% or more of shares in a company when the registrar's risk-based analysis, as set out in amendment 116, has identified a matter of concern.

Seema Malhotra: It is a pleasure to speak in this debate on amendments and new clauses relating to clause 88. My right hon. Friend has gone through the measures in considerable detail, so I will limit my remarks, but I want to put on record a number of points about them, because they are important.

Amendments 119, 120 and 116 would ensure that the registrar, rather than carrying out analysis as she sees appropriate, would analyse information in her possession with a view to preventing or detecting crime. I hope that hon. Members agree that we all want the same thing. I also hope that the Minister recognises the work that has gone into thinking this through and seriously considers taking some of the sentiments and wording of the amendments, or perhaps some other wording, to add another layer of robustness to the Bill.

Although the clause does not contain many subsections, it is important, because it is a very big aspect of what we need to be working to achieve and supporting the registrar to achieve, yet it does not go into much detail about Parliament's intentions and what the Minister expects. The Minister and I disagree slightly. Although I agree that some of the amendments might be slightly more prescriptive than we might like—that is partly about probing and making points on the record—the clause sets out remarkably little direction on a very big part of what we want the registrar to do. I hope that the Minister will be able to reflect on the amendments in the round in the context of adding a layer of robustness to the Bill by ensuring that the registrar is clear on her duty to use the information available and the importance of doing so, and therefore giving confidence. Sometimes when legislation is a little too broad, or not clearly interpreted, it can lead to inertia. It is not always clear what can be done or what was intended by Parliament. Therefore, the reaction is to do less just in case something would cross a line. That is where clarity on how the legislation will be interpreted is important. If there are ways in which we can go further without a downside, we should consider them.

Amendment 120 would ensure that, in carrying out the analysis, the registrar will make use of the power to require additional information under section 1092A, where the registrar considers that additional information may contribute. Making that explicit would be helpful. Amendment 116 would require the registrar, when analysing information for the purposes of detecting and preventing economic crime, to take a risk-based approach. I think that we all agree on that, but my right hon. Friend the Member for Birmingham, Hodge Hill expressed what we expect from the police in terms of thinking a little more widely in relation to the prevention of crime.

We do not seek to extend the requirements too far beyond what is practical for the registrar to do, or to detract from their main responsibilities. This is complex, and it is important to think about the role and objective of prevention, and to give some greater clarity about what might be expected by Parliament in relation to achieving it. Where the risk-based assessment that could be carried out identifies a matter of concern, it would be clear that it was Parliament's intention that further analysis that may be needed can be carried out, and that information can and should be shared with the relevant law enforcement agency.

As we have stated, the amendments would help to ensure that the legislation in the end does in practice what it sets out to do. That is what we all want to achieve. Indeed, the amendments would give a little more shape to the proactive role that Companies House would have in detecting and preventing economic crime.

I will speak briefly to new clause 37, tabled by my right hon. Friend the Member for Barking. We welcome the new clause, which would insert a duty on the registrar to check an individual's person of significant control status. That would apply where the registrable person's identity is verified in the way that she outlined. The registrar would then take steps to ensure that the registrable person whose identity is being verified is indeed a person with significant control over the company. The new clause

would ensure that, where there is an identified risk suggestive of potential economic crime with regard to a registrable person who is a person of significant control, that person's status is then investigated by the registrar or put forward for further investigation, depending on the circumstance.

As we have called for throughout the Committee, we must ensure that the Bill acts on its aims and helps move and encourage Companies House to shift from being a passive administrator to a proactive agent, because Companies House plays a very important role as a first line of defence. The new clause would do just that. I welcome the Minister's thoughts on these measures. If he opposes the new clause, as he has hinted he might, can he see some arguments for adding some necessary teeth to the legislation, and might he bring forward suggestions of his own?

New clause 38 would provide that in a case where the registrar's risk assessment under section 1062A(1A) has identified a matter of concern in relation to a dissolved company, the registrar must examine the accounts of the dissolved company with a view to establishing whether any economic crime has been committed. The registrar must share details of any evidence gathered under subsection (1A) with the relevant law enforcement agencies. We welcome the introduction of the new clause, as it would ensure that directors of companies that have been set up and used for fraudulent or criminal purposes are unable to simply dissolve the company to avoid scrutiny or investigation before potentially committing a similar offence with another company.

R3, the insolvency and restructuring trade body, said in its written evidence to the Committee that

"the Government has missed a crucial opportunity to truly close some of the loopholes currently exploited so easily by fraudsters. The Bill's proposals will be limited in their efficacy to bring about real change to preventing and disrupting economic crime if companies used as vehicles for fraud continue to be dissolved and struck off the Companies House register automatically, with next to no due diligence carried out to ascertain whether the company has been involved in fraudulent activity".

New clause 38 would tackle precisely that issue, which has arisen in other parts our debate, and introduce the due diligence necessary to ascertain whether a dissolved company has been involved in criminal activity. In its evidence, R3 outlines that around 400,000 companies—I think the Minister also cited this number—are dissolved and struck off the Companies House register each year. We would be grateful if the Minister responded to what we see as a loophole and, in light of previous discussions, explained whether it goes as far as it could.

I will speak briefly to new clauses 41 to 43. New clause 41 would require a person who controls 5% or more of the shares in a public company to disclose the total amount of their shares to the registrar. It would also require a person controlling shares through multiple nominees to declare the total number of shares they control.

New clause 42 would require Companies House to verify both the identity and the shareholding of a person who controls 5% or more of shares in a company where the registrar's risk-based analysis set out in amendment 116 has identified a matter of concern. New clause 43, tabled by my right hon. Friend the Member for Birmingham, Hodge Hill, would introduce a new provision requiring disclosure of shares held by a nominee. Under the new clause, any person holding shares in a public company as nominee for another person must disclose that fact to the registrar. The registrar may also impose a penalty on any person who fails to comply.

3.30 pm

I have spoken repeatedly in Committee about the need to tackle opaque shareholder ownership; stakeholders have also expressed their concern that the Bill does not go far enough in that respect. Indeed, in evidence to the Committee, Duncan Hames of Transparency International said that when the Bill comes into force,

"shareholder information will become the poor relation on the company register."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 91, Q173.]

That is a really important statement, which bears repeating. That is a particular concern in circumstances 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. That was very important evidence from an organisation that is extremely experienced and well researched in all the relevant issues.

I hope that the Minister will consider the amendments and new clauses in the spirit in which they have been tabled, because they seek to tackle the remaining quite big holes in the Bill. I hope that he takes the sentiment behind them very seriously and I look forward to his response.

Liam Byrne: It is a pleasure to speak to new clause 43, which is in my name but has been drafted with the assistance of my right hon. and hon. Friends. In introducing it, I have to think that the Minister is a lucky man, because there are very few opportunities when any of us in this place have the chance to translate a life's work into the law of the land. Yet that is precisely the opportunity that we have afforded to the Minister, who is steering the Bill so ably through Committee. That is why we are here to help him. The Minister will know that he is living the dream.

I know that the Minister is not insensible to the scale of economic crime in this country or to the threat that it poses, because I was privileged enough to be there in Westminster Abbey just a few months ago, when he got up to speak with his customary eloquence to the launch of the economic crime manifesto. That has been drawn up with input from so many right hon. and hon. Members, and it is the manifesto that declares loud and clear:

"Dirty money is a national security threat…Dirty money causes massive financial damage…Dirty money is damaging the UK's reputation…Dirty money may be pushing up prices for British citizens…Dirty money undermines the rule of law and democratic institutions."

The Minister knows what he is talking about when it comes to the Bill, which is why he is stewarding it so ably through Committee. That is why I know that, as a canny captain in his Department, he is alive to all the constructive recommendations that we are making to him, because that that strengthens his hand.

The Minister has obviously got some theatre to perform because he has to get the Bill through the House and then get it through the House of Lords, and then back through the House of Commons. As an experienced and seasoned political operator, he will know that it is really wise to make a few strategic concessions to the

[Liam Byrne]

Opposition to keep them on side. Although he has not revealed that yet by making us any concessions, it will not be long, and it could be at the conclusion of my speech to new clause 43, because it is a blindingly obvious improvement to a current hole in the Bill.

To make that case, I need to demonstrate three things this afternoon: that use of proxies by bad people is a problem; that use of proxies by bad people is a problem here in our country; and that the Bill is deficient and needs toughening up.

Let me share a few examples of why proxies are such a problem. Where better to start than with exhibit A, Roman Abramovich, who was finally sanctioned earlier this year after a disgraceful period of licence in which he was allowed to do terrible things like buy football clubs? Now he has of course put Chelsea football club into some sort of trust. The money is frozen. He has declared that all net proceeds from the sale will be donated to the victims of the war. Members on both sides will have been as surprised as I was to hear from the Foreign Office Minister this morning at Foreign Office questions that that money has still not been routed to victims of Russia's barbarity in Ukraine; it is still frozen by red tape and bureaucracy in this country.

That is an outrage, because Roman Abramovich secretly transferred hundreds of millions of pounds in assets, including private jets—including the world's biggest private jet—to his children just days before he was placed under sanctions. That is not my view; that is the view of the Federal Bureau of Investigation. The oligarch has seven children, aged between eight and 30. He is alleged to have made his offspring the beneficiaries of an offshore trust in Cyprus that controls his assets. That transfer was made in February and included a £282-million Boeing 787 Dreamliner, super yachts and trophy items bought through a network of shell companies, including some in Jersey and the British Virgin Islands: Wotton Overseas Holdings Ltd, Jersey; Clear Skies Flights Ltd, Jersey; and Wenham Overseas Ltd, British Virgin Islands.

All that begins to illustrate how a bad actor has used proxies to circumvent sanctions and sanction controls. The tragedy of course is that it was not Companies House that proactively brought the matter to the House to say, "Here we are, folks. I think we have a bit of a problem"; no, we have to learn about it not from Companies House or a British crime enforcement agency, but from the United States, where the authorities brought an action and forced disclosure of the information in the American courts. That underlines my point that use of proxies is a systemic problem.

I want to go further, however, and to illustrate how the use of proxies is a systemic problem of economic crime here in our country. Who better to illustrate that than Alisher Usmanov? He has strong ties to President Putin and his inner circle. On 22 March this year, it was revealed that Usmanov's sister, a gynaecologist based in Tashkent, had the beneficial ownership of 27 different Swiss bank accounts with hundreds of millions of dollars in them. In fact, analysis of the suspicious activity reports related to those accounts showed that they had been moving around about $1.6 billion. That was revealed in *The Guardian* newspaper. His assets include a $600-million super yacht, the Dilbar, an Airbus H175 helicopter and UK properties including Sutton Place, a 16th-century Tudor house in Surrey, which are held through a range of different trusts. He is widely known as someone whom we should be taking far more aggressive action against than we are today.

We then have the case of Dimitry Mazepin. He was —is—the controller of Uralchem and a number of other fertiliser companies on behalf of President Putin and the Russian Government. Among the holding companies in Mazepin's group is Uralchem Freight, based in Cyprus, which has control of a fertiliser terminal in Latvia. The Latvian press, however, reports that the beneficial owner of that organisation is someone called Aamar Atta Bhidwal. That is the same name as a director of Quest Resources, incorporated at Companies House on 16 July 2021, in Guisborough. The co-director was someone called Gordon Alexander, a director of Hutton Chemicals. Quest is also, we are told, in the beneficial ownership of a company with close association with Mr Mazepin.

Clearly, there is already a risk that UK nationals on the Companies House register can be used as proxies, whether wittingly or unwittingly, by someone who is sanctioned.

Kevin Hollinrake: Will the right hon. Gentleman give way?

Liam Byrne: I will give way to the Minister, but there is more to come.

Kevin Hollinrake: I intervene in the hope that I might abbreviate the debate—I am probably going to fail. Is the right hon. Gentleman aware that it is already the case in law that a share held by a person as a nominee or proxy for another is to be treated as though the share is held by the true owner? Also, in law, failure to declare the true owner is a criminal offence. Is he aware of that?

Liam Byrne: Yes, of course, but the Minister must also be aware that the provisions he has sketched into the law have comprehensively failed, as my next example will now prove.

Mazepin was the majority owner of Hitech Grand Prix, and his son was a racing driver. His company, Uralkali, was the sponsor of this company until March 2022. In March of this year, 75% was transferred to a company called Bergton Management Ltd. The shares were not sold; they were relinquished. There does not seem to have been any cash paid out for this major economic interest in a globally significant grand prix company.

From Bergton Management Ltd, the ownership of the assets moved to somebody called Oliver Oakes, who now controls 75% of the shares. He created Uralkali racing in January of this year. In an interview last year, he called Dmitry Mazepin a friend, associate, colleague and manager. I saw from the Companies House register this morning that he created Hitech Global Holdings on 11 March 2022, just three days after Mr Mazepin and his son were sanctioned.

There is a clear risk that oligarchs are using proxies, and that this misbehaviour is washing up on our shores and in Companies House. That leaves us with the third question: whether there is a hole in the Bill here. We need look no further than the evidence that UK Finance provided to the Committee. I said:

"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."

The answer came:

"I think they could be improved, yes."—*[Official Report, Economic Crime and Corporate Transparency Public Bill Committee, 25 October 2022; c. 11, Q10.]*

Here is a simple opportunity for the Minister to apply a bit of good old-fashioned belt and braces, make the Opposition happy, keep them on side and ensure that some of his former colleagues who put together the economic crime manifesto are singing his praises wherever they can—accept either the principle or the wording of new clause 43. It asks for nothing more than that any person holding shares in a public company as a nominee for another person must disclose that fact to the register, or face a sanction. That is straightforward, it is not complicated, and it would make a difference.

Kevin Hollinrake: I am grateful to the right hon. Gentleman for his kind words. I remember very clearly my speech in Westminster Abbey that night. He might remember that I talked about corporate criminal liability and whistleblower reform, which are absolutely essential. Indeed, at least one of those falls under my portfolio, so I am certainly committed to bringing forward those reforms when I can.

The only difference between hon. Members of the Opposition and ourselves is the means by which we would achieve the same end. On amendments 119 and 120, I am always happy to look at sensible amendments that take us forward. When Opposition Members talk about those cases, they are talking primarily about cases in the past where we did not have the powers that this Bill provides, and where we did not have the level of enforcement; we both agree that that needs improvement.

Where we differ is on how we go about this. I have serious concerns about the provisions in amendment 116, tabled by the right hon. Member for Barking, which seem to require the registrar to look at every single company on the record. That is exactly what it says. It says that the registrar

"must carry out a risk assessment to identify where the information it holds might give rise to a matter of concern."

The registrar can do that only by looking at every single record.

Dame Margaret Hodge: Will the Minister give way?

Kevin Hollinrake: I will just develop my arguments. I listened to hers at length, and I heard them very clearly. Our approach is a more workable one. I do not think her approach is workable. I think that if we listen to each other's arguments, we are probably saying the same thing. We are trying to overlay the information that sits with the registrar herself in Companies House with information from others, such as banks, lawyers, accountants—we discussed that in earlier debates—and law enforcement agencies in order to identify where the information she holds identifies risks, so that she can then carry out an investigation.

Dame Margaret Hodge: Will the Minister give way?

Kevin Hollinrake: I will develop my point a little further, and then I will let the right hon. Lady intervene.

3.45 pm

As I have said previously, I do not believe in micromanagement through legislation, although we want to make sure this legislation is implemented to the degree we would like to see. To respond to the right hon. Member for Birmingham, Hodge Hill, it is not the case that a police officer simply looks at his little black book and says, "I will restrict my investigation to what I have in here"; quite the opposite. In our debates on many other clauses, we have discussed the sharing of information. We have talked about the two-way flow of information between different agencies, in both the private and public sectors, to inform the contents of the little black book, as the right hon. Member calls it, and determine whether a salient risk is posed by a company, one of the officers of a company, or a person of significant control. Indeed, the banks, lawyers, accountants and other people who are supervised under money laundering regulations have a duty to proactively report discrepancies to Companies House to inform the registrar.

The right hon. Member also made the point that journalists draw attention to much of this information. Journalists do a fantastic job—many of the cases that have been referred to today are based on a journalist's excellent work—but that ability will be enhanced through the extra information that will be provided through the registrar.

Liam Byrne: My concern was to ensure that the registrar has a crime-fighting obligation, and that when she conducts her risk assessments, she is not constrained merely to the information that is before her—that which is on the register.

Kevin Hollinrake: As the right hon. Member knows, objective 4 establishes exactly that: an obligation

"to minimise the extent to which companies and others carry out unlawful activities, or…facilitate the carrying out by others of unlawful activities."

That is quite clearly in the Bill.

New clauses 37 and 38 would require the status of a person with significant control and the accounts of dissolved companies to be checked by the registrar. The registrar would be required to carry out a risk assessment of all those companies—roughly 1,000 companies per day. Members might be thinking that every person with significant control has some connection to Russian dirty money or Russian oligarchs, but the vast majority of state-owned enterprises have a person with significant control, because they own more than 25% of those companies. For the registrar to look at 1,000 companies every single day to determine whether there is a risk, and then investigate further—that is exactly what the right hon. Lady's new clauses would require—would not be practical.

Dame Margaret Hodge: This is becoming a rather absurd psephological debate. I have just asked my right hon. Friend the Member for Birmingham, Hodge Hill whether I have got the wording wrong—whether there is a great difference between risk assessment and risk-based assessment. Perhaps Government Members will tell me differently, but those two things are the same, and we should not try to locate a difference between them.

[Dame Margaret Hodge]

The last thing any of us wants to do is micromanage any of our organisations through legislation, but we have to look at the experience and the record of all the enforcement agencies and bodies in the financial services sector over the years. If we have colleagues of ours in the House doing that, they will meet with massive criticism. One way to tighten and toughen this up without having to get involved in the minutiae is to move from powers to duties, which is the purpose of a lot of the amendments we are debating today. If the Minister does not take seriously some of these practical suggestions, he is in danger of setting up a new system that is as open to abuse as the current system, and we will be back here in a couple of years putting it right.

Kevin Hollinrake: All legislation needs improvement, but we must not put the registrar under a duty that makes her job impossible. That is what the right hon. Lady's amendment would do. That is what I am pointing out to her; not that I do not think—

Dame Margaret Hodge *rose—*

Kevin Hollinrake: I cannot let the right hon. Lady intervene again. We are pressed for time. We just do not agree on this point. I think that we agree on the broad sentiment that there should be a risk-based analysis, but that is not what her amendment says.

With 1,000 companies resolved every day, it would be impractical to have a risk assessment of every single one of those companies and to then do the risk-based analysis. I think that the amendments are too directive, and I ask Members not to press them. I am happy to consider whether there is a less prescriptive formulation that we could add to the clause to have that effect. I completely understand and concur with Members' broad objective. Of course we want a proactive regulator who determines where the risks are and acts on information, be it from journalists, private sector companies or enforcement agencies, to inform her work and to make sure that she pursues those who are most likely to be guilty of wrongdoing.

A couple of Members referred to the Russian sanctions regime. In the Russia (Sanctions) (EU Exit) (Amendment) (No. 13) Regulations 2022, we broadened the designation criteria to include specified immediate family members and those with links to Russian state-owned businesses. There are, of course, things like the combating kleptocracy cell at the National Crime Agency.

New clauses 41, 42 and 43 seek to address concerns about nominee shareholders. New clauses 41 and 42 would require people who control, directly or indirectly, 5% or more of the shares in a public company to declare themselves. New clause 43 would require any person holding shares in a public company as a nominee for another person to disclose that fact to the registrar. The new clauses would put additional obligations to disclose information to the registrar on to the person who holds the shares, rather than the company to which the shares relate.

New clauses 41 and 42 would create a burden in relation to public companies that would not exist for private companies. It would not be proportionate to impose such a burden on public companies that are low risk and that have additional requirements placed on them. It is already the case in the law on nominee shareholders or proxies that a share held by a person as a nominee for another is to be treated as though the share is held by the true owner and not by the nominee. Failure to declare a shareholder is a criminal offence and if the court were to find that a person should have been registered, the person and their company would be at risk of prosecution. I hope that provides the assurance that right hon. and hon. Members need.

Dame Margaret Hodge: I know that we share the objectives, but I feel very frustrated by the inability to decide whether a risk assessment and a risk-based assessment are the same. For the life of me, I cannot see the difference. We will put it to the vote and see whether those in favour of risk-based assessments are happy to go with "risk assessments".

Kevin Hollinrake: That is not what the right hon. Lady has put in her amendment. It says not "risk-based assessment" but "risk assessment".

Dame Margaret Hodge: I would say that there is no difference. In amendment 116, we have "risk assessments". For those of us who think this is the way forward, I have to say that the Minister's argument seems constructed rather than real.

The Chair: The Question is that amendment 119 be made.

Liam Byrne: On a point of order, Ms Elliott. Can you clarify the order of consideration for the amendments and new clauses in this group?

The Chair: Let me be clear. We are discussing amendment 119 to clause 88. Does the right hon. Member for Barking want to press the amendment to a vote?

Dame Margaret Hodge: No. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment proposed: 116, in clause 88, page 68, line 17, at end insert—

'(1A) As part of the analysis under subsection (1), the registrar must carry out a risk assessment to identify where the information it holds might give rise to a matter of concern.

(1B) Where the assessment identifies a matter of concern, the registrar must—

(a) carry out whatever further analysis it considers necessary; and

(b) share any evidence of unlawful activity it identifies with the relevant law enforcement agency.

(1C) For the purposes of this section, a "matter of concern" includes—

(a) inaccurate information;

(b) information that might create a false or misleading impression; or

(c) evidence of economic crime.'—*(Dame Margaret Hodge.)*

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 9.

Division No. 9]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Malhotra, Seema	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom
Hughes, Eddie	

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Currently, the registrar cannot proactively share the information she holds on businesses and individuals that is of use to law enforcement agencies and regulatory bodies. Nor can she carry out routine analysis to spot patterns of behaviour that are indicative of criminal activity. The clause inserts a new function for the registrar so that she is obliged to undertake such analysis as she considers appropriate for crime prevention and detection purposes, such as spotting fraudulent activity. That will provide the statutory basis on which the registrar's new intelligence hub will be founded. The hub will be instrumental in identifying strategic and tactical economic crime threats posed by information on the register. That has long been called for. Under the data sharing powers that sit elsewhere in the Bill, the registrar will be able to proactively exchange the fruits of her analysis. The new clause is critical in supporting law enforcement agencies to tackle economic crime.

Seema Malhotra: As I have said before, we do not necessarily have any problem with what is in the Bill. It is about what is not in the Bill. The clause is important. We have debated how it can be improved and I am sure we will come back to debate that further. On the basis that it is an important part of the Bill, we support clause stand part.

Question put and agreed to.

Clause 88 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

3.59 pm

Adjourned till Tuesday 15 November at twenty-five past Nine o'clock.

Written evidence reported to the House

ECCTB 08 OpenCorporates (supplementary submission)

ECCTB 09 Elspeth Berry, Associate Professor of Law, Nottingham Law School (supplementary submission)

ECCTB 10 Spotlight on Corruption

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Eleventh Sitting

Tuesday 15 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

Saturday 19 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 15 November 2022

(Morning)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

The Chair: Good morning. I have a few preliminary announcements. Please switch all electronic devices to silent. No food or drink other than water is permitted during Committee sittings.

Clause 89

Fees: costs that may be taken into account

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 14, in clause 89, page 68, line 33, at end insert—

"(aa) any function of a Northern Ireland department under or in connection with the Company Directors Disqualification (Northern Ireland) Order 2002 (S.I. 2002/3150 (N.I. 4));"

The amount of fees set under the Companies Act 2006 is determined in accordance with regulations. This amendment allows the regulations to reflect the costs or likely costs of a Northern Ireland department in discharging functions relating to directors disqualification.

The Chair: With this it will be convenient to discuss Government amendments 15 to 17.

Kevin Hollinrake: It is a pleasure to speak with you in the Chair, Mr Robertson. The Bill seeks to ensure that companies and other entities benefiting from incorporated status directly contribute to maintaining the integrity of the company register. We will do that by including investigation and enforcement costs in Companies House fees. We will debate those issues shortly, but first, I hope that Members will agree that it is right that the costs incurred through pursuing enforcement activity in Northern Ireland should also be included in the Secretary of State's decision making when setting Companies House fees, which is the effect of these amendments.

Amendment 14 agreed to.

Amendments made: 15, in clause 89, page 68, line 36, at end insert—

"(ba) any function of a Northern Ireland department under or in connection with the Insolvency (Northern Ireland) Order 1989 (S.I. 1989/2405 (N.I. 19)), so far as relating to bodies corporate or other firms;".

The amount of fees set under the Companies Act 2006 is determined in accordance with regulations. This amendment allows the regulations to reflect costs or likely costs of a Northern Ireland department under the insolvency legislation.

Amendment 16, in clause 89, page 68, line 40, at end insert—

"(d) any function carried out by the Insolvency Service in Northern Ireland on behalf of a Northern Ireland department in connection with the detection, investigation or prosecution of offences, or the recovery of the proceeds of crime, so far as relating to bodies corporate or other firms.".—*(Kevin Hollinrake.)*

The amount of fees set under the Companies Act 2006 is determined in accordance with regulations. This amendment allows the regulations to reflect costs or likely costs of the Insolvency Service in Northern Ireland in connection with enforcement.

Stephen Kinnock (Aberavon) (Lab): I beg to move amendment 115, in clause 89, page 68, line 40, at end insert—

"(3B) Prior to making any changes to the level of fees payable to the registrar, the Secretary of State must—

(a) consult with the registrar on the proposed changes; and

(b) set out in writing what the basis is for the proposed changes, with reference to subsection (2) above.".

The Chair: With this it will be convenient to discuss the following:

New clause 25—*Fee for registering a company*—

"(1) The Companies Act 2006 is amended as follows.

(2) In section 1063, after subsection (3), insert—

'(3A) Regulations under this section must set a fee of at least £50 for the incorporation of a company.'".

New clause 33—*Fees*—

"(1) Section 1063 (Fees payable to registrar) of the Companies Act 2006 is amended as follows.

(2) Before subsection (1) insert—

'(A1) The registrar must charge a fee of £100 for the incorporation of a company.

(B1) The Secretary of State must once a year amend the fee in subsection (A1) to reflect inflation.

(3) In subsection (1)—

(a) after "fees" insert "other than the fee in subsection (A1)"

(b) in paragraph (a) after "functions" insert "other than the incorporation of a company'.

(4) In subsection (5), in paragraphs (a) and (b) after 'regulations' insert 'or subsection (A1)'.".

This new clause requires Companies House to charge a fee of £100 for the incorporation of a company. It gives the Secretary of State the power to amend this fee once a year to reflect inflation.

New clause 40—*Retention of fees by Companies House*—

"(1) The Secretary of State must report to Parliament on the case for incorporation fees for companies being retained by the registrar.

(2) The report must be laid before Parliament within three months of this Act being passed.".

Stephen Kinnock: It is a pleasure to serve under your chairship, Mr Robertson. I rise to introduce amendment 115. When considering any piece of legislation that creates new criminal offences, one of the most important questions we have to ask is how confident we can be that the offences will be adequately policed and enforced. The question is particularly relevant in our deliberations on this Bill, because there is such a wealth of evidence that the laws we already have on economic crime are not being enforced as rigorously as we would hope. The reason is clear: the chronic under-resourcing of the various law enforcement bodies in recent years—or, to put it another way, under this Government.

I am sure that the Minister needs no convincing on this point. In fact, some of the most compelling arguments for greater resourcing for economic crime enforcement have been made by the Minister himself. Just over

four months ago, he joined my right hon. Friend the Member for Barking in leading a debate on this issue. The motion for that debate pointed out that

"law enforcement agencies are significantly under-resourced to deal with the scale of the problem".

In speaking to the motion, the Minister pointed out:

"We know that roughly 40% of our crime is economic crime, yet only 0.8% of our resources in man hours are dedicated to tackling economic crime, so there is a huge disparity."—[*Official Report*, 7 July 2022; Vol. 717, c. 1042.]

Those figures are striking, and it should alarm Committee members that the Bill is likely to widen that disparity even further. The reforms to Companies House set out in part 1 of the Bill represent

"its biggest upgrade in 170 years".

Again, I am quoting the Government's own words. It is still the case today that if someone goes to the official Companies House website to search the register, they find a disclaimer stating:

"Companies House does not verify the accuracy of the information filed".

Of course, one of the most important goals of the Bill is to change that, through new requirements on Companies House to verify the accuracy of new filings, and to continuously monitor and update records; but despite that fundamental shift in the scale and scope of its responsibilities, there is nothing in the most recent corporate plan for Companies House, published in July this year, on increasing either its budget or workforce in the light of those changes.

Not only is there unlikely to be additional Treasury funding for Companies House, but it appears there may even be cuts. Given the repeated warnings from the Chancellor to expect "eye-watering" decisions on public spending in this week's fiscal statement, it seems unlikely, to say the least, that Companies House can expect a financial settlement that is even remotely commensurate with its obligations under the Bill. If the Minister could provide any reassurance to the contrary, it would certainly be welcomed by the Opposition—but we are not holding our breath.

In the absence of more resources from the Treasury, we are left with just one option, which is for Companies House to generate more income from registration fees. The case for higher fees is compelling. Not only is there the increased workload that the Bill will create for Companies House, but it has been abundantly clear for some time that the fees charged for registration are ludicrously low. The Minister is aware that it is undeniably too cheap, quick and easy to form a new company in the UK; there is minimal to non-existent verification or oversight.

For evidence of what appears to be emerging cross-party consensus on the necessity for higher fees, we need look no further than the exceptionally thoughtful and balanced report on economic crime published by the Treasury Committee in February this year, which stated:

"The low costs of company formation, and of other Companies House fees (such as filing fees), present little barrier to those who wish to set up large numbers of companies for dubious purposes…The Government should…review…Companies House fees to bring them closer to international standards."

As a member of the Treasury Committee at the time of the report's publication, the Minister presumably agreed with that statement back in February. I see no good reason why the position would have changed since then.

It is striking that the Bill does not address the question of fees payable to Companies House until clause 89. Even then, the clause sets out what costs may be taken into account in setting future fees, but avoids the next logical question of what an appropriate fee might be. Like so many fundamental details of how the legislation will work when in force, that has been left up to regulations that will be made at some indeterminate point in the future. It does not seem unreasonable to expect, or at least hope for, more detailed provisions on the subject in the Bill.

Clause 89 refers to the need for future regulations setting new fee levels to reflect the expanded responsibilities of Companies House under the Bill and other recent legislation. That is welcome as far as it goes, but unfortunately it does not go far enough. Through amendment 115, the Opposition seek to fill some of the gaps left open by the Bill by introducing an explicit requirement for the Secretary of State to consult with the registrar before changing fees. It would also require the Secretary of State to set out explicitly in writing the justification for any changes to the functions and workload of Companies House.

The amendment would provide a stronger statement of the necessity of setting fees at a level commensurate with the actual day-to-day needs of Companies House in carrying out its responsibilities under this and other relevant legislation. It should go without saying that fees should not be set at such low rates that we become a magnet for dodgy business dealings by criminals in search of the weakest possible regulatory environment; but it is not by any means clear that we can trust the Government's wisdom in determining appropriate fees. A clearer, stronger set of criteria for such decisions should be incorporated into the Bill. Amendment 115 provides what we hope is a useful way forward.

Turning to new clauses 25, 33 and 40, there are strong arguments in favour of setting a specific level of fee as a baseline for any future changes. We should all be in agreement by now that the current fee—it is just £12 to register a company—is far lower than it should be. Certainly, that was the message from the many expert witnesses who gave evidence to the Committee last month. I recall in particular the testimony of Nick Van Benschoten of UK Finance, who pointed out that the UK's £12 fee puts it in closer alignment with countries such as Benin and Turkmenistan than with comparably well-developed economies in Europe and North America, where fees roughly in the range of £50 to £100 are the general rule.

New clause 25, tabled by Scottish National party Members, suggests a minimum fee of £50. That would certainly be a good start, but the Bill could and should go further. New clause 33, tabled by my right hon. Friend the Member for Barking, would require a fee of at least £100 to be charged for company formation, with annual increases based on inflation. On behalf of the official Opposition, my hon. Friend the Member for Feltham and Heston and I are pleased to add our names to the proposed new clause, which we believe is a necessary and proportionate solution to the problem at hand.

It should be pointed out that the figure of £100 has not been plucked out of thin air. It is useful to return to the report that I mentioned by the Treasury Committee, of which the Minister was a member at the time. It

[Stephen Kinnock]

concluded that a £100 fee for company formation would not deter genuine entrepreneurs, and would raise significant additional funding for Companies House and the fight against economic crime. It would be helpful if the Minister could confirm whether that remains his view. If he has changed his mind, he may wish to say a little about the basis on which he has done so.

New clause 40, also tabled by my right hon. Friend the Member for Barking, would add a further requirement on the Government to review and report on the case for measures to ensure that any future revenue from fees can be retained by Companies House for reinvestment in its work to police and enforce our laws against economic crime, under its remit as set out in the Bill and elsewhere. Again, this is a common-sense proposal that we should all welcome. It should not continue to be the default position that either all or a large part of any fees payable to Companies House go straight to the Treasury, with no guarantee that there will be any reinvestment into efforts to tackle economic crime. New clause 40 would make an important contribution by addressing that problem. I look forward to hearing the Minister's response.

Alison Thewliss (Glasgow Central) (SNP): New clause 25 is a probing amendment. I am minded to have a higher fee than £50, but what does the Minister think the baseline ought to be? Is it £100 or £50, or is he not prepared to put a number on the minimum price for registering a company? By way of contrast, a provisional driving licence fee application is £34, a passport is £75.50, and citizenship is £1,330 pounds. The Government are prepared to levy a whole range of fees for a whole range of privileges to do with living in this country; £12 to register a company seems miraculously low in comparison to all the other fees that the Government are willing to charge. In all those cases, I am sure that the Government would say that they are trying to recover costs, but they are not prepared to say how much it would cost to run Companies House in such a way that it can prevent economic crime, although that is pretty crucial to the whole endeavour.

I agree with everything the hon. Member for Aberavon has said, and I support the amendments from the right hon. Member for Barking, who is, I am sure, absolutely correct in everything she is about to say; I often agree with everything she says. I draw the Government's attention again to the written evidence from UK Finance, which says:

> "Clause 89 should be amended to ensure an initial increase in registration fees within six months of commencement, and to ensure annual reporting on planned investment, fee increases and scheduled implementation of new powers."

If we set a minimum in legislation and do not update it, the problem is that often prices increase—mostly artificially, but also through factors such as the runaway inflation that we see in the UK at the moment. It is important to commit to an annual increase and annual reporting to ensure that fees keep pace with changes in a way that is considered reasonable.

Twelve pounds to register a company is really nothing in the grand scheme of things. I ask the Minister to consider how we can better ensure that the Companies House registration scheme forms part of the deterrent. Rather than allowing the bulk creation of lots of small companies at £12 a pop, we can ensure that people say, "This is a real company. There is a real financial commitment to it." I do not think that any company will be deterred by a fee of £100 rather than £12.

Dame Margaret Hodge (Barking) (Lab): On a point of order, Mr Robertson. Why is new clause 29 not included in this group?

The Chair: We are coming to it later.

Dame Margaret Hodge: Thank you. New clause 29 is on a similar area of debate, so there might be a bit of repetition when we come to it. The new clauses we are discussing speak for themselves. The Minister knows full well that it is really important that we get a grip on economic crime, and that means resourcing our enforcement agencies. He often says—and I completely agree—that it is pointless passing legislation if we do not enforce it, and that means funding agencies properly. If we look at the record on enforcement, it is pretty abysmal right across the piece.

That particularly goes for Companies House. The first conviction it achieved was against Kevin Brewer, a man in his mid-60s who formed a company and stated that Vince Cable, then Secretary of State for Business, Innovation and Skills, was a director and shareholder. He formed another company and put Baroness Neville-Rolfe and the right hon. Member for Braintree (James Cleverly), now Foreign Secretary, down as directors. He did it to demonstrate that Companies House never checks the data. When he put that information in the public domain, Companies House's response was to sue him, and he had to pay a hefty fine. I am sure that the Minister will agree that this was a case of a genuine whistleblower trying to demonstrate that the system was not working and being wrongly pursued by the authorities. It should never have happened. That is the record of Companies House to date. We hope the reforms we are discussing and debating will improve the matter.

The current position is absurd. Everybody has used figures, but the figure that I like to use is the £12 it costs to form a company against the £1,220 it costs to get a visa for a skilled worker. Our perspective is just wrong. Everybody wants to make it easy to create new companies, but any business worth its salt would not find a greater sum an inhibiter to creating a new business. We just have this completely wrong, and that is what the Opposition are trying to put right in a way that does not burden the taxpayer.

9.45 am

The fees paid will not come out of taxation. As the Minister knows, fees can be employed by the organisation to fund its activities without any rules being broken; with fines, which we may come to later, there is a greater problem around the definition of public expenditure. We are trying to do something that does not burden the taxpayer at a time of great challenge to our public finances. That ought to be welcomed by the Minister.

I am sure the Minister will say—I will challenge him if and when he does—that he accepts that Companies House must be well funded, but that that should be a matter for him, as the Minister. I think it is a matter for the House: not just for the Government, but for the

legislature. That is why we are putting these amendments on the agenda. We should be debating the issue here; it should not just be decided by Ministers.

Furthermore, we are attempting to put in place a sustainable funding mechanism, so that we do not have a row every year, whatever happens with inflation, on whether the sum should be increased. It is difficult to select a figure; in the end, we went for £100. The Minister will argue that we have to find out the cost first, but I would simply say that we will use that £100 really well in enforcement. If it is not used by Companies House, it could go to the Nation Crime Agency, which obtained fewer than five prosecutions a year for economic crime in the past five years. It could also go to support the Serious Fraud Office, which has seen its prosecutions cut by a third, although it had an incredibly successful prosecution, on which we should congratulate it, just last week, on Glencore, where it secured £280 million—a lot of money—for the Exchequer. I think that some of that should have gone to enforcement.

Enforcement can do it, but it needs to be properly resourced. We must take enforcement out of the politics of budget-making and set it in a firm, sustainable manner. That is why we are suggesting the figure of £100, which is also the figure that the Treasury Committee—of which the Minister was a member—came to. Locking it to inflation is also important so that we do not have the annual row.

Looking at other jurisdictions, the US has increased its expenditure on enforcement against economic crime by 30% in Biden's latest Budget because they see it as a security threat. The UK's response, in the last comprehensive spending review, was to cut the FCA by 4%. We know, as other Members have said, that fraud is now the biggest crime. I had a meeting just yesterday with the City of London police, who really cannot do anything when less than 1% of police resources are allocated towards fighting economic crime. However hard they proselytise the issue with their colleagues across the country, they get absolutely nowhere with it.

We have the economic crime levy, which is a contribution from the private sector. That is welcome, but it is pretty shameful, I must say, that the Government are putting in only about £32 million a year—it is £100 million over the three-year spending review period, so it comes to about £32 million a year—as their contribution towards economic crime.

Kevin Hollinrake: It is £400 million over the spending period.

Dame Margaret Hodge: I know it is, but most of that comes from the economic crime levy. The £300 million comes from the economic crime levy; £100 million comes from the Government's coffers. Correct me if I am wrong, but that is my understanding of it, so a third of that—£32 million or £33 million—is the Government's annual contribution out of taxation. That is where I got the figure from. If I am wrong, I stand to be corrected, but that is my understanding.

Looking across the world, even the British Virgin Islands, our favourite secrecy jurisdiction, charges £1,000 to people who wish to create a company there; I cannot think that that has put anyone off using the BVI if they want a secrecy jurisdiction to support them. Australia charges £247; in the USA, in California, it is £150; in Delaware, another secrecy jurisdiction, it is £590; in New York, £570; Italy, £2,000; and Germany, £383. Even with our new clause, we would still be a cheap place in which to do business.

That is all I need to say at this point. We brought in new clause 40 because we think that should also be embedded. The Minister may tell me that it happens, but we think it should be embedded in legislation so that no future Government are ever tempted to take the money they earn from fees and put it towards other purposes. I hope that the Minister will accept that.

Again, correct me if I am wrong, but I have not seen anything in legislation that ensures that money raised in fees goes directly to enforcement. The Minister may want to do that, but his successors may not feel the same. The issue is never a high political priority so it is important that we get sustainability for the issue over time. That is the reason for the new clause.

Liam Byrne (Birmingham, Hodge Hill) (Lab): It is a pleasure to speak with you in the Chair, Mr Robertson. It is fantastic for the Minister to be able to kick off today with this debate—surely there has never been a Minister as lucky as this one is in taking this Bill through Committee. Here we have an entire Opposition side of the Committee united in wanting to give the Minister the tools to do the job—the job for which he has argued for years and years in this House.

We want to send the Minister into the spending review, with his colleague the Chancellor of the Exchequer, with his hands bound. We want to ensure that he goes into those conversations with the law of the land changed, so that he is required to put up the fees for Companies House and actually has the money he needs to do the job. We know that that is not going to damage the business investment environment in this country. How? Because it could not get any worse than it is today.

The business investment level in this country over the last 12 years has now been the worst in the G7, so it is unlikely to get any worse if fees at Companies House are put up a little bit: it is already spectacularly bad. That underlines a simple point: that the level of economic crime in this country is now so infamous around the world that it could be damaging the level of business investment here. If we are known around the world—certainly, in Washington and in European capitals—as a global epicentre of dirty money, how does that help us become a great, global hub of business investment in years to come? Obviously, it does not. There is a competitive advantage to be had by becoming one of the great capitals of clean trade. Here we are, an Opposition united in wanting to help the Minister achieve that ambition and make sure that he has the resources to do the job.

In the public evidence sessions, we heard a clear set of arguments as to why these amendments need to be made. We heard that our country has now become the centre of the Russian laundromat, the Troika laundromat and the Azerbaijan laundromat. Indeed, the Security Minister and I were on the Foreign Affairs Committee together when we heard the most appalling evidence that some of the biggest money-laundering scandals have involved UK corporate structures more than anything else; I think I am right that about 40% of the billions laundered through Danske Bank came through UK corporate structures. That is truly a mark of shame, and

[Liam Byrne]

why Bill Browder was absolutely right when said in evidence to this Committee that it is appalling—a matter of shame—that there has been only one prosecution for money-laundering around economic crime in this country. That truly is an appalling record of law enforcement.

Worse than that, we also heard from the Independent Reviewer of Terrorism Legislation that the situation is not simply bad news for economic crime, but a national security issue. When the Independent Reviewer of Terrorism Legislation tells the Committee that it is a matter of national security that we clean up the dark mass of economic crime in this country, we as Members of Parliament ought to listen and do something about it. Then we heard from a range of police specialists who said, first, that they thought the problem was getting much worse quite quickly, and secondly, that they did not have the resources they needed to enforce the law in this area.

All that evidence points in one direction: Companies House needs more money. When we took evidence from representatives of Companies House, we heard, startlingly, that they have not even discussed their budget with the Treasury for the next financial year, which is due to start in only a few months' time. They mooted the idea of asking for cash for an extra 100 people, which the dogs in the street know is not going to be enough to enforce the measures in the Bill.

With all his native cunning and wit, the Minister needs to find a way to make the concessions the Opposition are asking for and to agree to the amendment, so that he can be the great, historic, legendary, reforming Minister who took the bull by the horns once and for all and helped make sure that this country is once more renowned around the world as a capital of clean trade—all because of the efforts, cunning and wisdom of the Minister in accepting the amendment before him today.

Kevin Hollinrake: I thank the right hon. Gentleman and other Members for the amendments and their contributions. I would never take credit for all the progress we are making on economic crime. In fact, I would hark back to the words of Ronald Reagan, who said something like, "There is no limit to what you can achieve in life, as long as you don't mind who takes the credit." I am happy to share the credit with anybody on this Committee or the many people who have campaigned on the issue over the years.

One thing I do agree with the Opposition about—it is a point on which we all agree—is that Companies House and the other enforcement agencies should have enough money to do the job. That is what we are trying to get to and what I think we will get to. I also agree that, in the past and currently, enforcement agencies have been and are under-resourced, so we need to do something about that. I also have to agree with myself on the statements I made about the proportion of spending on law enforcement for economic crime and in respect of the Treasury Committee report's conclusion that Companies House fees should be raised. My position on that absolutely stands.

I disagree on a number of points, the first being that this situation is somehow just the current Government's fault—that somehow, Companies House fees have been reduced to £12 over recent years. That is not the case; it has been the case for years, including when Opposition Members were in charge of setting those fees. The right hon. Member for Birmingham, Hodge Hill was in the Treasury at the time when fees were at £12. The reason for that is that Companies House has always had the principle that its fees are levied to the extent it needs to do the job that it is set to do.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: Very briefly, because we are over half an hour into this debate already.

Liam Byrne: We are just getting warmed up. The Minister is absolutely right to flag that point. The fee level was always set in relation to the perception of the crime environment at the time, which was very different in 2009-10 from what it is today. As we have heard in the evidence, the crime environment is much worse and is multiplying exponentially each year, which is why the fees have to go up so dramatically. Hopefully, that is the point he is going to make.

Kevin Hollinrake: Again, we are all in agreement. Changing the environment is what this Bill—this very substantial document—is all about. There is no doubt that the situation has been hastened by what we have seen in Ukraine and other matters. It is absolutely high time to do this; I agree.

The shadow Minister suggested that somehow the fees to Companies House are going to face cuts in the future—that is the opposite of what is happening. I think he said the disparity would widen and there would be an absence of additional funding. That is absolutely the wrong way to look at the situation. The right hon. Member for Barking said that somehow these matters would be subject to cuts, and we would have to go to the Treasury as part of the comprehensive spending review to get funding for Companies House. That is exactly what is not happening—what is happening is that Companies House will collect the fees that it needs to do the job.

The position we take is that we do not put the cart before the horse. Companies House needs to set out exactly what resources, staffing and IT implementation it will need to do the job. It will present that to the Treasury and the Department for Business, Energy and Industrial Strategy and say, "Right, this is what we need to do". Fees will then be set on a commensurate basis and ringfenced to the job, not stolen by the Treasury. They are set in accordance with the rules and the oversight that they need, including enforcement. As we know, Companies House is moving from that dumb register to being a proactive body, in terms of overseeing the integrity of the register.

10 am

Dame Margaret Hodge: Where is the parliamentary oversight of that?

Kevin Hollinrake: I am coming to that. The simple answer is that, when the fees are assessed, they are subject to regulations that are subject to parliamentary scrutiny. They are laid before the House before the fees are approved.

Dame Margaret Hodge: Under negative or affirmative resolution?

Kevin Hollinrake: It is under the affirmative resolution. Different Members have suggested different figures, from £50 to £100. The right hon. Member for Barking said £1,000, as if to say, "We charge that in the BVI, therefore why not charge it in the UK?" That was the implication. What she said was that the people who look to use those jurisdictions to hide their money would be quite happy to pay £1,000, but that is exactly the point. On 99.9% of occasions, we are not just dealing with companies that indulge in nefarious activities; we are talking about not deterring bona fide businesses by setting the fee level at a fair level that does not deter business activity but does mean that Companies House has the right enforcement capability. That is what we want to get to, and we want to ensure that Companies House is able to do that.

I will touch on a couple of the points made about the SFO case last week, which I think we all welcome. It was not actually about resourcing; changing legislation made that possible. It was about corporate criminal liability and failure to prevent, which was successfully enforced in that case. That is a lesson for us all. The right hon. Member for Birmingham, Hodge Hill said that there has been only one case ever of a successful economic crime prosecution in the UK, and that Bill Browder had said that. Mr Browder did not say that; there have been many prosecutions of economic crime. To clarify, he was talking about it in connection to the money that came out of Russia.

Companies House is funded by the fees that it charges. If the Secretary of State considered changing those fees, there would of necessity be an appraisal of the resourcing needs of Companies House before that could take place. Fees can be charged only to cover the costs of the activities that they are intended to fund, including enforcement.

In order to arrive at an appropriate level of fee, my Department would have to work directly with Companies House to determine the funding requirements. Of course, there has to be Government oversight of that, because that is what we are elected to do. It is right that the Secretary of State would oversee that and then present it to Parliament for scrutiny. I agree that companies will justifiably want to understand how and why a particular level of fee has been arrived at, but the mechanism for that already exists. Fees will continue to be set by regulations, and the basis for any changes will be included in the accompanying analysis and explanatory memorandum that are published and presented to Parliament for scrutiny.

New clauses 25 and 33, introduced by the hon. Member for Glasgow Central and the right hon. Member for Barking, will shortly set out intentions on the level of fees to be charged. We do not intend to enshrine a level of fee in primary legislation, as doing so would restrict flexibility that may be required at a future date. We will commit to reviewing the fees on a regular basis to ensure that they provide the funding that Companies House needs.

Liam Byrne: I think we all welcome the revelation that fees will be set shortly. What month of the year does the Minister think that might be?

Kevin Hollinrake: Sorry, I did not catch that. Will the hon. Gentleman repeat the question? I do apologise.

Liam Byrne: The Minister said that he will set out the fees shortly, but what month of the year does he mean by "shortly"?

Kevin Hollinrake: I am a new Minister, but I have heard many Ministers speak on such occasions and I have never heard a Minister commit to a date before.

Liam Byrne: Break the mould!

Kevin Hollinrake: I cannot imagine that in his many years as a Minister the right hon. Gentleman would have ever set out a date, but it will be shortly.

Finally, I turn to proposed new clause 45 and the points made by the right hon. Member for Barking. The Bill amends the fee-raising power within the Companies Act 2006, in order to enable costs associated with investigation and enforcement to be included when setting the level of fees. Companies House is able to retain incorporated fee income under current arrangements between the Treasury and Companies House, with the arrangement reviewed periodically. Legislation does not set the level of fees, but rather the level of fees is set by our regulations. I have to say to the right hon. Member for Barking that that is under the negative resolution procedure and therefore receives parliamentary scrutiny.

Dame Margaret Hodge: If it is under the negative resolution procedure, the Minister well knows that it will not receive the parliamentary scrutiny it deserves. The advantage of the way we framed our new clauses is that the fee would automatically rise with inflation rather than any other mechanism being needed. I would have thought the Minister would welcome that because it would ensure consistent resourcing.

Kevin Hollinrake: I do not accept that the two things—inflation and the resources needed by Companies House—necessarily correlate. Salaries do not rise automatically on that basis. As the right hon. Lady will know, Companies House reports annually and I am keen to ensure that there is the right level of scrutiny around this type of activity in terms of resourcing, as I have said to her before. Therefore I do not think an automatic inflationary increase is right, but I absolutely believe in parliamentary scrutiny and it is something that perhaps we can discuss.

Dame Margaret Hodge: Will the Minister therefore come back with an amendment that provides for affirmative resolution?

Kevin Hollinrake: That may be something that the right hon. Lady wants to table, but this is a significant commitment, both in terms of legislation and resourcing. I cannot imagine a situation where Companies House comes to the Secretary of State or to me, as I will have some oversight over it, and say, "We need this level of resourcing, which will impact on fees in this way," and we respond by saying, "Actually, that is too much." It depends what they say, of course, and it is right that we have scrutiny over that, but I am sure there will be many mechanisms the right hon. Lady can use to ensure we have that level right.

The Chair: Does Stephen Kinnock wish to respond?

Stephen Kinnock: No. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 17, in clause 89, page 69, line 5, at end insert—

"(b) the reference in subsection (3A)(d) to functions carried out by the Insolvency Service in Northern Ireland on behalf of a Northern Ireland department, so long as the functions referred to are functions of a Northern Ireland department that are of a similar nature."—*(Kevin Hollinrake.)*

The amendment allows the reference to functions carried out by the Insolvency Service in Northern Ireland on behalf of a Northern Ireland department to be amended in the event that, in future, the functions are exercised otherwise than by the Insolvency Service in Northern Ireland.

Question proposed, That the clause, as amended, stand part of the Bill.

Kevin Hollinrake: As I have just set out to the Committee, clause 89, as amended, will enable Companies House fees to be used to fund enforcement and prosecution action against companies and other entities. As we increase the powers of the registrar and expand the role that Companies House and the Insolvency Service play in tackling economic crime, we need to make sure that they are appropriately resourced to carry out that activity. The clause is therefore vital in ensuring that Companies House can do that.

Question put and agreed to.

Clause 89, as amended, accordingly ordered to stand part of the Bill.

Clause 90

Disclosure of information

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I beg to move amendment 105, in clause 90, page 69, line 24, at end insert

"and,

(c) to an insolvency practitioner appointed over a corporate who has requested information not publicly available on the register about to a corporate over which they have been appointed, or any other corporates linked to that of the entity to which they have been appointed, from the Registrar."

This amendment would enable the Registrar to share non-public information on the register upon request by insolvency practitioners, in relation to the corporate over which they have been appointed, or any other corporates linked to that of the entity to which they have been appointed.

It is a pleasure to serve under your chairship, Mr Robertson. Clause 90 amends the Companies Act 2006, inserting proposed new sections that allow any person and the registrar to disclose information to each other, and help the registrar to perform its functions. It is an important clause that effectively widens disclosure provisions, allowing the registrar to disclose any information held, and to do so proactively where that disclosure enables the exercise of the registrar's functions. I am concerned that it perhaps does not go far enough. We heard in evidence about the importance of clarity around information sharing, what is and is not permitted, and what can be disclosed.

It is in this light that I speak to amendment 105, in my name and that of my hon. Friend the Member for Aberavon, which would enable the registrar to share non-public information on the register on request by insolvency practitioners in relation to a corporate over which they have been appointed, or any other corporates linked to the entity to which they have been appointed. In short, the amendment would ensure that, where the registrar holds non-public information that could aid insolvency practitioners in carrying out their duties in investigating a corporate that they have been appointed to investigate, the registrar can, on request, share that information with the insolvency practitioners.

As R3, the insolvency practitioners group, laid out in its evidence to the Committee, insolvency practitioners, when appointed over corporate entities, are required by law

"to investigate a company's affairs and director conduct…in order to discharge their duties."

The group recommends

"that insolvency practitioners be able to request access to Companies House's non-public information pertaining to any other corporates linked to that of the entity to which they have been appointed."

This is a simple but quite important amendment, which would ensure that, where economic crime could have taken place in a dissolved company, insolvency practitioners can proactively request all the non-public information held by the registrar on the register that would help in either preventing or detecting the possible economic crime. It is not about a fishing expedition, or anything like that: it is about giving, in specific circumstances, insolvency practitioners the further tools that they have said are important to help them to do their incredibly important job.

I ask the Minister to give the amendment serious consideration. We are not necessarily planning to press it to a vote, because this is an area where he will probably see the merits of the argument. He may want to come back to it later, perhaps with a Government proposal, or we may pick it up again. It seems to plug an important gap in a part of the legislation that concerns the disclosure of information. The legislation is proactive, from the point of view of the registrar being able to share information; if, however, the registrar does not know where it might be needed, insolvency practitioners, who have duties under the law, should have the opportunity to request information that can provide evidence for economic crime or give insight into a company, so that potential economic crimes do not go undetected and unpunished.

Kevin Hollinrake: I thank the hon. Members for the amendment.. The registrar is already permitted to share information with insolvency practitioners for purposes connected with her own functions—clearly now expanded, given this legislation. However, we acknowledge that there may be other specific circumstances in which she wishes to share information, so I sympathise with the tabling of the amendment.

10.15 am

As drafted, the amendment is too wide, in our view. It would allow the registrar to share any information about a corporate over which an insolvency practitioner has been appointed for any purpose, regardless of what that purpose is. I ask the hon. Member for Feltham and Heston to withdraw the amendment, but I agree that we

should consider this issue further to see what might be done to help insolvency practitioners access information, perhaps in a narrower set of circumstances.

Seema Malhotra: I thank the Minister for his remarks. That is a constructive step forward. I would be very happy to meet the Minister, whether before Committee stage concludes or soon after at Report stage. It feels quite an important space. We would be prepared to look at rewording the amendment or to work with the Government on one to see if it needs to be narrower but still serve the purpose. That makes for better legislation and we would be very happy to look at it. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider the following:

That schedule 3 be the Third schedule to the Bill.

Clause 91 to 93 stand part.

New clause 36—*Disclosure of PSC information to local authorities*—

'(1) The Companies Act 2006 is amended as follows.

(2) After section 790ZH (inserted by section 92 of this Act) insert—

790Z1 Disclosure of PSC information to local authorities

'(1) The Secretary of State may by regulations make provision to facilitate the release of information held by companies on people of significant control to any relevant local authority which may request such information for the purposes of—

(a) tackling economic crime; and

(b) recovering a relevant unpaid debt;

(2) For the purposes of subsection (4A)(a) above, "tackling economic crime" includes any reasonable steps which the local authority may see fit to take as part of an investigation into a company which the authority has reasonable grounds to suspect may be involved in the commission of a relevant offence.

(4) For the purposes of subsection (4B) above, a "relevant offence" includes an offence under—

(a) the Proceeds of Crime Act 2002; and

(b) the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, as amended.

(5) For the purposes of subsection (4A)(b) above, a "relevant unpaid debt" includes unpaid business rates subject to recovery by the local authority under the Local Government Finance Act 1988.'

This new clause makes specific provision for relevant information to be disclosed, upon request, to a relevant local authority in connection with any effort by such an authority to investigate suspected economic crime, or to collect outstanding debts from companies which have not paid business rates.

Kevin Hollinrake: Currently, the registrar is restricted in what information she can share, which can be done only on a reactive basis. Clause 90 enhances the data sharing powers of the registrar so that she can proactively share information. Sharing will be allowed for the purposes of the registrar's own functions or where she is sharing with a public authority for the purposes of their function.

Schedule 3 makes consequential amendments to the Companies Act 2006 and the Economic Crime (Transparency and Enforcement) Act 2002 resulting from clause 90. Clauses 91 to 93 make further amendments to the Companies Act to improve the registrar's information sharing capabilities, ensure that the necessary safeguards are in place and improve the integrity of the register. Clause 91 closes a gap by making it an offence for a company to use or disclose protected information in contravention of section 241 of the Companies Act.

Clause 92 confers a power on the registrar on application to make an order requiring a company not to use or disclose relevant people with significant control particulars. Currently, the registrar can use directors' residential addresses only for the purpose of communicating with the director. Clause 93 will remove the restriction on the use of protected information, specifically directors' residential addresses. That means that the registrar will be able to use residential address information for alternative purposes such as cross-checking the accuracy of information on the register. That will help to improve the integrity of the register.

I thank hon. Members for new clause 36. Its effect would be to give the Secretary of State a power to make regulations to facilitate the release of people of significant control information from companies to local authorities for the purposes of tackling economic crime and recovering a relevant unpaid debt. We do not believe that the amendment is necessary. Clause 92 already provides a power for the Secretary of State to make regulations that specify the circumstances in which a company may disclose relevant PSC particulars.

Furthermore, the Government consider that it would be more appropriate for the registrar to have the power to disclose such information to local authorities, rather than the company, given the closeness of the relationship between a company and its people of significant control, and the risk of tipping off. A company may have only one director, person of significant control and shareholder. Such person could, in effect, be disclosing self-incriminating information about themselves.

Committee members can rest assured that under the new powers given to the registrar in clause 90, they can disclose information to a public authority for purposes connected with that public authority's functions. That includes local authorities. The registrar may also disclose information to any persons for purposes connected with its own functions, such as for the purposes of crime prevention and detection. Clause 90 already provides a route for local authorities to access PSC information for the purposes of tackling crime and recovering relevant unpaid debt. I hope that provides reassurance to hon. Members.

Seema Malhotra: It is a pleasure to speak in this stand part debate. I will defer to my hon. Friend the Member for Aberavon to speak to new clause 36.

I have referenced some points on clause 90 and its importance. I will make a couple of other remarks on that more generally. It widens disclosure provisions, and the registrar will proactively disclose information held where that disclosure enables the exercise of her functions. I have a question for the Minister on subsections (5) and (6), where offences and defences are set out. That is obviously important, but I have a concern about the disclosure or data sharing provisions.

The fear of being on the wrong side of the law can sometimes deter the use of those powers. It is a question about whether there has been any discussion with the

[Seema Malhotra]

registrar, for example, about the interpretation of the wording; being as clear as possible about what is permissible within the law and where the offences might be, and the possible defence for a person who could be charged with an offence under subsection (5). So often we say, "There are powers to do X" or "The police have a power", but there are concerns about the use of that power and how someone could be accused of not using that power within the law, so we might end up having a challenge. Someone could go through a process to clear their name or to say that their actions were within the scope of the law. We just need to be clear to reduce the challenges that can come later.

Perhaps the Minister will respond today or clarify in discussions with the registrar on this very important clause that it is as clearly worded as it could be, with less room to be challenged where that power is used as intended by Parliament.

Schedule 3 makes consequential amendments to clause 90 and amends the Companies Act to enable the registrar to disclose usual residential addresses. It states that where additional trust information is protected from disclosure to the public, regulations made under section 25 may not require the registrar to refrain from disclosing that information under proposed new section 1110E. Will the Minister explain that aspect a little further? Broadly, we welcome the schedule as a necessary provision in expanding the information sharing aspect.

Clause 91 highlights an offence that can be committed by a company and every officer who is in default. Clause 92 confers a power on the Secretary of State, on application, to make regulations requiring the registrar to make an order requiring a company not to use or disclose relevant information regarding persons of significant control. The Minister has spoken to this point briefly, but could he expand a little more on the introduction of this clause, and can he provide any examples of instances in which—as per clause 92—the Secretary of State might require a company not to disclose PSC information? We would welcome that clarity.

I have no further comments on clause 93, which restricts the registrar from using directors' residential addresses for anything other than communicating with the director. I would welcome the Minister's clarification of the points I have raised.

Stephen Kinnock: I rise to speak in support of new clause 36. In considering the Bill's provisions on information sharing, we should ask ourselves two main questions. First, do the clauses strike the right balance between protecting individuals' privacy on the one hand, and making as much information as possible available to members of the public on the other? Secondly, does the Bill make adequate provision for information to be shared between organisations in order to facilitate the robust enforcement of these laws? It is the second of those questions that new clause 36 seeks to address.

On a number of issues, the Committee has been able to find an encouraging degree of cross-party consensus on the actions we need to take against economic crime. I think we can all agree that the existing frameworks for law enforcement are not currently up to the task. It has been widely acknowledged for some time now that the diffuse nature of enforcement responsibilities across so many different government agencies, police forces and private sector institutions often acts as a hindrance to efforts to achieve a comprehensive, strategic approach across all sectors involved. Alongside the Economic Crime (Transparency and Enforcement) Act 2022, which came into force earlier this year, the Bill seeks to reduce barriers to information sharing in order to facilitate more timely and effective enforcement action where it is needed. However, the information-sharing provisions that we are currently discussing leave some important issues unresolved.

With new clause 36 we have sought to address one of the most troubling gaps in the Bill as currently drafted: the absence of any specific measures to facilitate information sharing with local authorities. That is a serious weakness that, if left unaddressed, could pose a serious challenge to efforts to ensure a strong, unified, cross-government approach to law enforcement, in terms not only of Whitehall but the vertical relationship between national Government and local government. Many local authorities, particularly in London, are at the coalface when it comes to dealing with some of the most pernicious effects of money laundering and other forms of economic crime. It is disappointing that the Committee was not able to hear from any local government representatives during our evidence sessions. I would be grateful if the Minister could set out what steps, if any, the Government took to consult local authorities during the process of drafting the Bill.

In the meantime, I would like to share some of the points raised with me recently by members and officers from Westminster City Council. It should come as no surprise to Committee members that the effects of money laundering and other criminal activity, particularly in relation to property ownership, can be seen more acutely in Westminster than probably anywhere else in the country. As we should have the opportunity to discuss issues related to property ownership when we debate part 3 of the Bill, at this point I want to provide an example that illustrates the need for measures that specifically address the need for more information sharing with local authorities.

In Westminster, the council is trying to deal with a range of problems caused by the huge and growing presence of so-called American-style candy stores and souvenir shops across central London, with 21 such stores in the Oxford Street area alone. Extensive investigations by council officers, together with raids that have led to the seizure of more than £650,000-worth of counterfeit goods, provide an important evidence base that indicates the scale of the problem. Among the goods seized in those raids were thousands of disposable vapes that are in breach of UK standards on nicotine levels. That suggests that these stores may pose risks to public health, in addition to their apparent role in illicit financial activity. In Westminster alone, unpaid business rates from the stores amount to some £8 million.

10.30 am

Better information sharing is surely a prerequisite for more effective enforcement against economic crime. The intelligence gathered by councils in Westminster and elsewhere could play a vital role in supporting enforcement action at a national level, while information held by Companies House, His Majesty's Revenue and

Customs and others would undoubtedly make a huge difference to councils' efforts to deal with such problems as the phoenixing of companies in local communities. As things stand, there does not appear to be an adequate framework for a joined-up approach to economic crime across central and local government. New clause 36 would be an important step toward addressing this challenge.

Alison Thewliss: I very much agree with the hon. Member for Aberavon. As a former local government councillor, I can confirm that there definitely needs to be an interface between central Government and local government and it needs to look at economic crime. I was curious about previous discussions we have had about fit and proper persons. The fit and proper person test applies to parts of licensing within local government, but there is not necessarily any way of linking that with Companies House information.

The point about phoenixing is also important. Local businesses often come to local government for support, particularly during the pandemic or other times of crisis, and quite rightly so. Councils may hold information about the legitimacy of companies that have perhaps phoenixed many times—they applied for Government grants but the previous directors of the company dissolved it when business rates were due. Local government will have information, but there is not necessarily a place for it to reside. The Government need to think about how that information goes between the two levels of government.

With companies involved in property or homes of multiple occupation, there may be concerns about the fit and proper persons test and how that interacts with the companies engaged in housing provision. There needs to be some thought as to how those bits interact. We very much encourage the Minister to look at how the Government can be involved in that, and we support the Opposition new clause.

Kevin Hollinrake: I shall respond briefly to the queries raised. All the information must be handled in accordance with the Data Protection Act 2018. The way the Bill operates is consistent with similar legislation that deals with data sharing.

The hon. Member for Feltham and Heston raised the issue of the protection of information. The provision applies in a situation of risk of harm or serious risk of violence or intimidation—for example, in respect of domestic abuse victims.

Data sharing was raised by both shadow Ministers—the hon. Members for Feltham and Heston and for Aberavon. It is permitted to assist public authorities when they exercise public functions, such as confirming the accuracy of data or providing intelligence to law enforcement agencies.

Stephen Kinnock: Does the Minister have any comments on the points about local authorities?

Kevin Hollinrake: I just made those comments.

Stephen Kinnock: You mentioned intelligence agencies—

Kevin Hollinrake: I did not.

Stephen Kinnock: I am sorry, Minister; I may have misunderstood.

The Chair: There needs to be one speaker at a time.

Kevin Hollinrake: Data sharing is permitted to assist public authorities when they exercise their public functions. For example, they could ask the registrar to confirm the accuracy of data that is held, which may lead to information being shared for intelligence purposes with enforcement agencies.

Stephen Kinnock: Does "public authorities" include all local authorities?

Kevin Hollinrake: Local authorities are a subset of public authorities.

Question put and agreed to.

Clause 90 accordingly ordered to stand part of the Bill.

Schedule 3

DISCLOSURE OF INFORMATION: CONSEQUENTIAL AMENDMENTS

Amendment made: 49, in schedule 3, page 162, line 5, leave out paragraphs 5 to 7.—*(Kevin Hollinrake.)*

This amendment is consequential on NC17 and NC18.

Schedule 3, as amended, agreed to.

Clauses 91 to 93 ordered to stand part of the Bill.

Clause 94

GENERAL FALSE STATEMENT OFFENCES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clause 95 stand part.

Kevin Hollinrake: Clause 94 amends the general false statement offence in section 1112 of the Companies Act 2006 to create two separate offences: a basic offence and an aggravated offence. The Bill also amends section 32 of the Economic Crime (Transparency and Enforcement) Act 2022 to make a mirror-image, two-tier approach. The existing false statement offence under the Companies Act requires a document or a false, misleading or deceptive statement to have been delivered or caused to be delivered knowingly or recklessly to the registrar. Clause 94 substitutes that existing offence for two new offences with commensurate penalties.

The basic offence is committed when the false statement is made without reasonable excuse. The aggravated offence is committed when the false statement is knowingly made. It is worth noting that that refines the amendments made by the Government during the passage of the 2022 Act in response to parliamentary scrutiny. When either offence is committed by a firm, every officer of the firm that is in default also commits the offence. The structure of the new sections maintains consistency with amendments to the 2022 Act, the Limited Partnerships Act 1907 and the Reports on Payments to Governments Regulations 2014, as amended by the Bill.

On clause 95, we have already discussed many of the new powers that we are providing to the registrar and how they are intended to work. In exceptional circumstances, it may be necessary for the Secretary of State to allow material that would otherwise be treated as false, misleading or deceptive to be deliberately provided

[Kevin Hollinrake]

to the registrar to protect our nation's interests or to assist in the prevention or detection of serious crime. The clause ensures that when such action is taken, the Secretary of State can issue a certificate that ensures that the person to whom it is issued is not liable for the commission of acts that might otherwise amount to a false filing offence.

Clearly, the work of our law enforcement and intelligence agencies must be able to be carried out without fear of prosecution when they are acting in our interests. The certificate that may be issued provides an exemption for those purposes. The Secretary of State must be satisfied about the reason why a certificate has been sought and may issue one only if to do so is in the interest of national security or for the prevention or detection of serious crime. The certificate can be revoked at any time.

To further limit the circumstances in which a certificate can be issued, serious crime is defined in the clause, providing further assurance about the need for such a certificate. The definition of serious crime aligns with that used in section 18 of the 2022 Act, which allows the Secretary of State to exempt a person from the requirements of the register of overseas entities for the same reasons. The Government listened to the concerns expressed about such exceptions and exemptions during the expedited passage of the 2022 Act; the clause is therefore carefully constructed so as to be as narrow as possible.

Stephen Kinnock: One of the key problems the Bill seeks to address is the difficulty that arises when enforcing laws for which the burden of proof is exceptionally high. In that regard, the Opposition welcome the changes set out in clause 94. The current requirement to prove that somebody who has delivered false or misleading information or documents to Companies House did so knowingly and recklessly seems to set the bar so high as to act, in effect, as a hindrance to successful prosecution. It is a sensible change to replace the current requirement with language that enables a defence on grounds of a reasonable excuse, especially in the context of the related provision in the clause to prosecute those who can be shown deliberately to have provided false information for an aggravated offence that is subject to imprisonment for up to two years.

Clause 95, however, raises some questions that I hope the Minister will clarify. It will amend the Companies Act to allow the Secretary of State to issue any individual with a certificate that, it would seem, could provide blanket immunity from prosecution for any offence related to the delivery to the registrar or the making of a statement that is misleading, false or deceptive. This power is potentially very broad and, beyond a couple of lines stating that a certificate could be issued for reasons of national security or to assist in the prevention or detection of serious crime, there is little clarity as to how it might be used. I am sure the Committee would be grateful if the Minister could provide any further detail on how frequently and in what kinds of circumstances the power might be used. Perhaps the Minister could also set out in a bit more detail what safeguards, if any, might be put into place to ensure that the power is used only in cases in which there is a compelling need to do so.

Alison Thewliss: I am glad that an aggravated offence is included in clause 94, on general false statement offences, because quite clearly there are some people who are absolutely taking the piss in terms of their company registration.

The false filing bit leads me to the topic of enforcement, which is the other side of the puzzle. Out of interest, I tabled a written parliamentary question to the Minister to ask

"how many fines have been levied in each of the past ten years for the offence of false filing to companies house, and what estimate he has made of the value of those fines."

His response was quite interesting. In 2012, the number of fines levied was nil, as it was in 2013. In 2014, 2015, 2016 and 2017 it was also nil. In 2018, things got slightly better, because one fine of £1,602 was levied. In 2019, there was a much better £15,000 fine for false filing. In 2020 and 2021, the number of fines was nil, and up to 31 October 2022 there was one fine of £500.

I guess there have been far more instances of false filing to Companies House in the past 10 years than those fines suggest. I do not believe that there have been only three cases of false filing to Companies House, because all the evidence suggests that it is absolutely rife. Will the Minister tell us more about how, in looking at the false statement offences, the aggravated offences and the fines that will be levied for non-compliance, he intends to pursue those who file false statements? Currently, they are not being pursued at all.

Kevin Hollinrake: I think the shadow Minister, the hon. Member for Aberavon, had two main queries. On the type of circumstance in which a certificate would be issued, it is impossible to predict other than to say that it would be when it is in the interests of national security or in the case of a serious crime, which is defined in the clause. The actual circumstances around that are incredibly difficult to predict. It is fair to say that we expect such a certificate to be issued on extremely rare occasions, but we cannot rule out the possibility of our needing to do so. Ultimately, it has to be a judgment for the Secretary of State.

On false filing, I well remember responding to the written question from the hon. Member for Glasgow Central. It was a very fair question. That is why we are in this Committee Room: it is about not just legislation but implementation. There have to be the proper resources for Companies House to do that job and I absolutely want to make sure that it has not just the powers but the resources to interrogate the database, make sure it is accurate and share the data information, because it is critical to look at the context. A number of things align in this respect: it is about the powers, the resources, the data-sharing capability and, for the first time, the sanctions of up to two years in prison on individuals who file falsely.

We absolutely want to ensure that the figures improve. I absolutely agree with the hon. Lady that there will be many more cases of false filing than those that have been identified, but to be fair to Companies House, without the resources to do it, which it has never been given before, that is a pretty difficult job for it to do. Companies House does publicly report annually, and I would very much like to see that kind of accountability in future reports, in terms of its efficacy in this area.

Question put and agreed to.

Clause 94 accordingly ordered to stand part of the Bill.

Clause 95 ordered to stand part of the Bill.

Clause 96

FINANCIAL PENALTIES

10.45 am

Dame Margaret Hodge: I beg to move amendment 84, in clause 96, page 75, line 23, leave out "the Consolidated Fund" and insert

"a fund established by the Secretary of State for the purposes of tackling economic crime (see section 1132B)".

This amendment requires penalties paid to the registrar to be paid into a fund for the purposes of tackling economic crime, rather than the consolidated fund.

The Chair: With this it will be convenient to discuss the following:

Amendment 80, in clause 96, page 75, line 26, at end insert—

"1132B Fund for the purposes of tackling economic crime

(1) The Secretary of State must by regulations establish a fund for the purposes of tackling economic crime.

(2) Penalties received by the registrar under section 1132A must contribute to the fund.

(3) The regulations must specify the purposes for which the fund may be used including funding the activities of law enforcement agencies in tackling economic crime.

(a) funding the activities of law enforcement agencies in tackling economic crime;"

This amendment provides for a fund to be established for the purposes of tackling economic crime.

New clause 29—*Report into the merits of a fund for tackling economic crime—*

"(1) The Secretary of State must produce a report into the merits of a fund for tackling economic crime.

(2) The report must consider the case for penalties paid to the registrar to be ringfenced and used solely for the purposes of tackling economic crime.

(3) The report must be laid before Parliament within six months of this Act being passed."

This new clause requires a report into the merits of a fund for tackling economic crime to be laid before Parliament.

Dame Margaret Hodge: Let us see where we get with this one—I will have another go. This is a vital amendment and I hope that the Government will listen carefully, because it would go a long way to ensuring that our enforcement capabilities, which we have been talking about all morning, really are fit for purpose and properly funded, without burdening the taxpayer—that is really important. If we tried to get competition between funding enforcement and funding other Government priorities, we would get nowhere in trying to ensure properly funded enforcement agencies.

The UK's record is abysmal. I am going to put this on the record. The NCA has had five prosecutions each year for the last five years. That is hopeless. Money laundering prosecutions are down 35% over the last five years, at a time of exponential growth in money laundering. Less than 1% of the billions of pounds laundered annually is ever restored to us. And the number of criminal fraud cases by the SFO has halved in the last three years, although again I welcome the Glencore case, and I agree with the Minister that it shows the importance of introducing the offence of failure to prevent economic crime.

This is not a criticism of the agencies; it is a criticism of us and our failure to fund this work properly, which is what we are trying to do here. If we look at the totality of the UK's expenditure on enforcement, we see that it is pathetic. It is 0.042% of GDP, whereas we know that the cost to the UK economy of economic crime is 14.5%, so there is an absurd relationship between our need to detect and prevent crime and our capability to do so. The FBI is 15 times larger than the NCA. We have already said that the police spend less than 1% on fraud, even though it represents 40% of crime—and that is just reported crime. And we have already said that the Americans have increased their budget, because they see this as a security threat, whereas we have reduced one.

I would welcome a comment from the Minister on this matter. My understanding is that the Government contribution to the fight against economic crime is £100 million. Out of the totality of £400 million in the budget, £300 million comes from the economic crime levy and only £100 million, over the comprehensive spending review period, comes from the taxpayer, so that is a mere £32 million or £33 million a year.

Kevin Hollinrake: If the right hon. Lady includes what we resource—the SFO, NCA and other enforcement agencies—it is not entirely clear, but we give about £825 million a year to our enforcement agencies.

Dame Margaret Hodge: The Minister knows that that is not necessarily to fight economic crime, but to fight other crimes. I was talking about the economic crime levy and those are the figures that I have.

It is irritating but understandable that the enforcement agencies prioritise other crimes in their day-to-day work; they do not prioritise economic crime. Despite the lack of funding, a lot of money is brought in by the enforcement agencies. Between 2018 and 2021, £3.9 billion was brought in in fines, confiscation and forfeiture. If all of that had been reinvested, all of the agencies would have had an extra £748 million to fight economic crime over that period. That would have had a fantastic impact on our ability to fight, detect and prevent economic crime.

It has been said in previous debates that money from fines cannot be hypothecated in that way, but I draw the Minister's attention to three precedents that negate that claim. In June 2022, the Information Commissioner announced a new arrangement allowing the office to keep some of the proceeds of its civil penalties to fund its work with the big tech companies. In 2019, Ofwat kept the proceeds of penalties it had raised on Southern Water to pay out to and reimburse customers. The Gambling Commission can also require payments rather than penalties to compensate victims or make payments to charities. Those are three precedents on which the Minister could build the argument that it would be perfectly appropriate for the proceeds of fines to be kept in order to resource the fight against economic crime.

I also draw the Minister's attention to a report on fraud published by the House of Lords last week, which states:

[Dame Margaret Hodge]

"To support the forthcoming fraud strategy",

which is only a part of addressing economic crime,

"with adequate resources, the Government must commit to a long-term funding strategy with an increased offer for law enforcement agencies"—

and this is the important bit—

"focussed primarily on recycling revenue collected by law enforcement agencies back into law enforcement activity."

The House of Lords has, therefore, come to the same conclusion as we have in tabling this amendment.

The UK's asset recovery incentivisation scheme ensures that some assets are recycled. Most of them go to the Treasury. Of the £354 million recovered in 2021-22 from confiscation orders, forfeiture orders and civil recovery orders, only 40% went back into fighting crime. If we compare ourselves with the Americans, we will see that all of their forfeiture proceeds go back into enforcement.

Under our proposal, money would be ring-fenced and it would be a cross-Government fund to finance enforcement against fraud and dirty money. The Minister knows that if the UK is to tackle economic crime effectively, far greater ambition is needed on the scale of public investment, and establishing an economic crime fund is the radical response that we need.

Stephen Kinnock: I would like to add some comments to the eloquent remarks of my right hon. Friend the Member for Barking.

In clause 96, the Government provide a framework for the registrar, within parameters to be set out by the Secretary of State in regulations, to impose direct financial penalties for many offences without the need for lengthy and often costly court proceedings. That is surely a welcome development, at least in so far as it should enable the registrar to take swifter action to deal with any offences involving false representations made to Companies House.

Of course, we will need to look closely at the details of how that will work in practice. In that respect, it is right that the Bill provides for parliamentary scrutiny of the relevant regulations via the affirmative resolution procedure. If the Minister could give a rough indication of when we can expect those regulations to be published, I am sure that the Committee would be grateful.

One thing that clause 96 makes clear is that any civil penalties imposed by the registrar will not exceed £10,000. I would be grateful for an explanation from the Minister about how that figure was arrived at, and whether he is confident that the power to impose a fine at that level will act as a deterrent to would-be offenders. Given the profit margins involved in some of the most serious crimes, we must ensure that the threat of civil penalties is both real and sufficient in terms of its potential to take a meaningful chunk out of criminals' assets. I am not entirely convinced that the threat of a £10,000 fine will be taken all that seriously by some of the intended targets, but if the Minister is aware of any convincing evidence to the contrary, I would be glad to hear it.

Even if we assume that the Government make rapid progress with the regulations enabling the registrar to impose civil penalties, we must then address—not for the first time in Committee—what happens to any funds raised from civil penalties. In amendments 84 and 80 and new clause 29, my right hon. Friend the Member for Barking has once again provided the Committee with an eminently reasonable and sensible answer to that question. Taken together, these amendments would require any fines paid to the registrar to be specifically designated and ring-fenced for the purposes of tackling economic crime.

The asset recovery incentivisation scheme, introduced by the previous Labour Government, provides a template of sorts, but given the scale of the threat that we now face from economic crime, we need to go further. It is surely a no-brainer that any fees paid to the registrar, together with penalties for those who break the rules, should be reinvested in broader cross-Government efforts to tackle economic crime. That would provide a stronger incentive for tougher enforcement and a more sustainable long-term funding model for Companies House and other enforcement bodies at no additional cost to the taxpayer. Opposition Front Benchers therefore fully support these amendments. We hope that Members on the Government Benches will do the same.

Kevin Hollinrake: I am very sympathetic to the points raised by contributors to this debate, and I am fully signed up to making sure that our law enforcement agencies have a long-term funding solution. As the right hon. Member for Barking knows, I am very sympathetic to the need to properly resource enforcement agencies, and, indeed, to the need for clarity on what funding is in place, right across the piece. We could have various different debates about what level that should be and on whether it should be £30 million a year. It is an awful lot more than that, but I accept that there should be more clarity. Wherever we can, we should seek to raise the moneys that the enforcement agencies need to do their job properly.

We are developing a new funding model for Companies House, which demonstrates our commitment to tackling economic crime. The combination of last year's spending review settlement and private sector contributions through the new economic crime levy will provide funding of £400 million over the spending review period. That applies to the AML regulated sector and will fund new or uplifted activity to tackle money laundering, starting from 2023-24. There will be a wide-ranging review three years later to provide transparency on how the levy is performing against its original purpose, including how the money is being spent.

In addition, as the right hon. Member for Barking set out, a proportion of assets recovered under the Proceeds of Crime Act 2002 are already reinvested in economic crime capability under the asset recovery incentivisation scheme. The figures that she quotes are interesting, because according to my note here, the receipts paid should be split 50:50 between the Home Office and the Treasury and operational partners, which should be the enforcement agencies. It should be an equal split. I do not know about the numbers that she gives regarding the situation in the US, but I am happy to look at that in further detail. I am very keen to make sure that resources are made available.

There is probably a difference here in relation to fines. The right hon. Lady acknowledges that POCA offences have been subject to the oversight of our courts. In terms of fines and civil penalties, however, there are strict guidelines on how that money can be spent. It is

interesting to look at the examples she quotes, but I think that two of them concern reimbursement of victims rather than further resourcing of the relevant agencies. I also slightly worry about the unintended consequences of allowing the regulator to simply issue fines and keep them. Many of those fines may be issued not because of transgressions related to economic crime; they may be related to other offences and other things.

The shadow Minister, the hon. Member for Aberavon, raised the issue of whether the level of £10,000 was appropriate. It is quite a lot of money, of course. The vast majority of businesses registered with Companies House are smaller companies. For a smaller company, £10,000 is an awful lot of money. It is, of course, an option. It is not that the registrar cannot refer this to law enforcement agencies. She can determine whether to impose a civil penalty or refer the matter to a law enforcement agency if it is serious enough. We felt that £10,000 was a reasonable compromise. On that basis, I hope that the right hon. Member for Barking will withdraw the amendment.

11 am

Dame Margaret Hodge: I would like to press amendment 84 to a vote, but I do not intend to press amendment 80.

Question put, That the amendment be made.

The Committee divided: Ayes 6, Noes 8.

Division No. 10]

AYES

Hodge, rh Dame Margaret	Morden, Jessica
Kinnock, Stephen	Newlands, Gavin
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hughes, Eddie
Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Hollinrake, Kevin	Tugendhat, rh Tom

Question accordingly negatived.

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clauses 97 and 98 stand part.

Kevin Hollinrake: At present, most obligations relating to the functions of the registrar are enforced through the criminal justice system. Clause 96 inserts new section 1132A into the Companies Act 2006, which gives the Secretary of State the power to make regulations to enable

"the registrar to impose a financial penalty on a person if satisfied, beyond reasonable doubt, that the person has engaged in conduct amounting to a relevant offence under this Act."

The registrar will have the discretion to choose to either pursue a financial penalty or pass a case on to law enforcement to consider criminal prosecution. Clause 96 contains a delegated power regarding the level of financial penalty. That is because in order to best support enforcement agencies in their fight against economic crime, there is likely to be a need to review and refine the enforcement procedures and processes.

Dame Margaret Hodge: Will the Minister confirm whether the action of Companies House under this clause should be part of the annual report to Parliament?

Kevin Hollinrake: In terms of the financial penalties imposed?

Dame Margaret Hodge: Yes.

Kevin Hollinrake: I think that is a very sensible suggestion and I am happy to take that away. I would like to see a number of things in that report that are currently not there. If we look at the most recent report, we see a number of references to this particular legislation. It welcomes this legislation, and I think it is important that the body reports publicly and to Parliament, as would be the case with the measures that the right hon. Lady mentions.

Similarly, there may be reason to review the appropriate financial penalty amount, and interest or late payment amount, to deter misconduct against the register as effectively as possible. The regulations will be subject to the affirmative procedure, which will provide the appropriate amount of parliamentary scrutiny of any proposed further changes.

Clause 97 will strengthen the link between civil sanctions and director disqualification by amending section 3 of the Company Directors Disqualification Act 1986, which states that the court may make

"a disqualification order against a person where it appears to it that he has been persistently in default in relation to provisions of the companies legislation",

and that

"the fact that a person has been persistently in default…may…be conclusively proved by showing that",

in the previous five years,

"he has been adjudged guilty…of three or more defaults".

Under proposed new section 1132A of the Companies Act 2006, the registrar will be able to impose a financial penalty on a person, if she is satisfied beyond reasonable doubt that the person has engaged in conduct amounting to an offence.

Section 3 of the CDDA will be amended so that the imposition of a financial penalty can count as a default. That will provide a greater deterrent to those who seek to circumvent legislative requirements. Not only will individuals face the risk of a financial penalty but the risk of being disqualified will become more likely when a financial penalty has been imposed. Clause 98 mirrors the provisions in clause 97 so that they apply in Northern Ireland, amending the current provision in article 6 of the Company Directors Disqualification (Northern Ireland) Order 2002.

Stephen Kinnock: We are disappointed that clause 96 will go forward unamended, because we feel that there are real risks in not directly linking the moneys raised with reinvestment specifically into economic crime. It is important to put that disappointment on the record.

Kevin Hollinrake: Of course, there is a link in the average scheme. I think £1.3 billion has been raised from asset recovery for law enforcement agencies since 2007, so there is a link. The point that we disagree on is fines.

Stephen Kinnock: I thank the Minister for that intervention. The amendments were trying to require any fines paid to the registrar to be specifically designated and ringfenced for the purposes of tackling economic crime. It is the lack of a specific designation and ringfencing that is disappointing, but we are where we are, and we move forward.

I will comment briefly on the final two clauses in the group. They are largely supplementary to the provisions that we have already discussed, but are nevertheless important. I particularly welcome the clarification in clause 97 that individuals subject to civil penalties under the preceding clauses will be treated in a similar way to those with a criminal conviction for the purposes of determining whether they meet the criteria for disqualification from serving as company directors. Making it clear that the same standards of conduct apply to those with a record of civil or criminal penalties should buttress the new system for civil enforcement fines, and will hopefully increase compliance.

The provisions of clause 97 that apply within Britain would be extended to Northern Ireland under clause 98. As I have said before, ensuring that a common set of rules and regulations is applied across the UK as a whole can only be a good thing.

Question put and agreed to.

Clause 96 accordingly ordered to stand part of the Bill.

Clauses 97 and 98 ordered to stand part of the Bill.

Clause 99

Meaning of "limited partnership"

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: This is a very simple measure. The Government are seeking to tackle the misuse of limited partnerships while modernising the law governing them. The clause clarifies the meaning of the term "limited partnership". The revised wording removes ambiguity and sets out that it is possible to be a limited partnership only by virtue of being registered as a limited partnership under the Limited Partnerships Act 1907. Furthermore, the Companies Act 2006 provision relating to the index of company names is amended to refer to limited partnerships registered under the Limited Partnerships Act. That allows the registrar to remove firms from the index of company names if they are dissolved, cease to be registered under the Limited Partnerships Act, or both.

Seema Malhotra: The clause inserts the definition of limited partnership into the Bill and makes clear that the registrar is obliged to maintain only those limited partnerships registered under the 1907 Act within the registrar's index of names.

Limited partnerships are a specific type of business structure in UK law that confer limited liability on some partners and therefore have to be registered with Companies House in line with the Limited Partnerships Act 1907 and the Partnership Act 1890, but numerous reports and consultations by the Government have identified the risk of economic crime through limited partnerships and Scottish limited partnerships. As I know the Minister will be well aware, the consultation in 2018 also emphasised the apparent attractiveness of such partnerships as vehicles for organised crime, and I am sure we will come back to that when we consider amendments to this part of the Bill. The consultation noted specifically that the National Crime Agency reported a high volume of suspected criminal activity involving Scottish limited partnerships. It also referred to claims made in an investigation that 113 SLPs were involved in a much larger money laundering scheme that transferred more than $20 billion out of Russia between 2010 and 2014.

Limited partnerships and Scottish limited partnerships have been identified by the Government for some time as high-risk corporate structures when it comes to facilitating and enabling economic crime. It is positive that we have reached this point, but it is disappointing how long it has taken. The clause is important, as it ensures that the registrar is obliged to maintain those limited partnerships that are registered as such, thereby ensuring that the registrar is not under any obligation to maintain names of defunct limited partnerships.

Alison Thewliss: My views on the abuse of Scottish limited partnerships are on the record, and the Minister is well aware of them. Anything that will help to tighten up protection against that abuse is welcome, but again, a lot of this goes to enforcement. It is not good enough just to legislate. There has to be enforcement, and the current enforcement has been absolutely woeful, with just one fine for failing to register a person with significant control. When the legislation started in January 2018, 7,078 people were not registered as they should have been as persons with significant control. That now stands at 201, but 201 is still too many, and the Government are still not issuing any fines for not complying with the obligations under that law. As with all the measures within this part of the Bill, my concern is about enforcement and making sure that everything is absolutely watertight, because if there is no consequence—at the moment, there is no consequence for non-compliance—people will continue to abuse the systems.

I caution the Minister also that when the rules around Scottish limited partnerships were tightened, people just moved to the next structure, and the next structure was limited partnerships in Ireland. Ireland has seen a huge surge in people abusing its corporate structures, which are similar to ours for historical reasons, but nobody warned the Irish that this was coming. I would be interested to know how the Government intend to monitor the tightening up of this legislation so that we are not just pushing down the bubble in the wallpaper for it to come up somewhere else.

11.15 am

Those who are abusing these structures are pretty good at it. They know what they are doing and are looking for the next thing. Whether that is trusts or some other company structure, the Government need to keep aware and not just assume that because there is awareness it means, "Job done," because it will not be job done. People are seeking to use those very lucrative structures for nefarious means, and will continue to do so. Whatever the next thing is, the Government need to be aware of it.

Kevin Hollinrake: As the hon. Member for Glasgow Central knows, the new provisions apply to Scottish limited partnerships, as well as limited partnerships. She is absolutely right to say that it is about not just the powers but the resources. I fully concur with that, as we have said previously. I will not reiterate those points.

The hon. Lady make her points on displacement—people will stop doing it here or in Scotland and go to Delaware, Ireland, or wherever else—well, of course. But we can do precious little about that, other than work on international co-operation through organisations such as the Financial Action Task Force, as we do internationally, to put pressure on all those jurisdictions. My view on the suggestion that has been raised many times that people will simply go somewhere else is that if all we can do is ensure they do not carry on their nefarious activities here, that is at least something. However, we certainly must work internationally with others on what happens globally.

Question put and agreed to.

Clause 99 accordingly ordered to stand part of the Bill.

Clause 100

Required information about partners

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider the following:

That schedule 4 be the Fourth schedule to the Bill.

Clause 101 stand part.

Clause 102 stand part.

New clause 56—*Limited partnerships: registration of persons of significant control—*

"(1) The Secretary of State must by regulations make provision about the registration of persons of significant control in relation to limited partnerships.

(2) For the purposes of regulations under this section, 'persons of significant control' may include persons with a right to—

(a) 25% or more of the surplus assets on winding up,

(b) a voting share of 25% or more,

(c) appoint or remove the majority of managers,

(d) exercise significant influence or control over the business, or

(e) exercise significant influence or control over a firm which would be a person of significant control if it were an individual.

(3) No regulations to which this section applies may be made unless a draft of the statutory instrument containing the regulations (whether or not together with other provisions) has been laid before, and approved by a resolution of, each House of Parliament."

Kevin Hollinrake: Clause 100 and schedule 4 significantly increase the amount of information that must be provided about a new limited partnership and its prospective partners, and, subsequently, when they make their annual confirmation statements or deliver notifications that report changes. Schedule 4 sets out what information must be provided, including date of birth, nationality and the usual residential address when the partner is an individual.

Clause 101 is intended to ensure that existing limited partnerships registered prior to the commencement of the Bill are equally required to deliver the relevant information set out in schedule 4. The general partners of limited partnerships will be required to provide the registrar with the required information of each person who is a partner in the limited partnership, or who became a partner on registration within a six-month transitional period.

Failure to comply with those requirements may give the registrar reasonable cause to consider that the limited partnership is no longer operating and is dissolved. That will mean that the registrar may exercise her confirmation of dissolution power, which we will debate later on. If the registrar goes through the confirmation of dissolution process, she may deregister the dissolved firm.

Clause 102 provides that the Secretary of State may, by regulations, designate a standard system for classifying the business of a limited partnership. That will make it easier to collate and sort information about a limited partnership's activities and it aligns with the position for companies. I thank the right hon. Member for Barking for her new clause 56. Perhaps she should speak about that now, and I will respond to her points.

Dame Margaret Hodge: I am grateful to the Minister and I agree with him that what we are all attempting to do here is trying to clean up the act in the UK. Some of our amendments are pragmatic, and I just hope that the Minister will listen and take them on board.

I want to go back to first principles, from when I started working in this area almost a decade ago. It was absolutely clear that transparency is a powerful tool in preventing and detecting economic crime. Sunshine is the best disinfectant. David Cameron used that phrase when he introduced the register of beneficial ownership, saying that we had a "gold standard". It did not quite turn out that way, but that was what he wanted. To go back to the days of 2018, the Financial Action Task Force said that Britain was

"a global leader in promoting corporate transparency".

We should hang on to that.

In 2014, the Cameron Government said it was "particularly important" that plans to force companies to name their ultimate owners should include English limited partnerships, in order to ensure that there were no loopholes or unintended consequences. That was completely right, yet two months later, in an inexplicable move, English limited partnerships were dropped. I do not know if the Minister has an explanation—I am happy to give way if he has—but that is what happened.

New clause 56 would introduce transparency into the system. I recognise that it is not a perfect answer, but it is a huge improvement on the status quo. We want to use the mechanism of the persons of significant control register. We propose that all limited partnerships, whether they are Northern Irish, English or Welsh, would have to register a person of significant control. All limited partnerships would therefore be treated in the same way.

As the Minister knows, limited partnerships have been used time and again by criminals to move and hide dirty money. I will give just one egregious example. In 2014, the US imposed sanctions on the Rotenberg brothers,

[Dame Margaret Hodge]

Boris and Arkady, who are known as close friends of Putin, in response to the annexation of Crimea. A later investigation by the UK Senate found that the two brothers had used an English limited partnership, Sinara Company, to pay a front figure in the art industry, a man called Gregory Baltser, a huge amount of money to get around the sanctions, buying and selling paintings worth up to $18 million. Paintings by Magritte, Chagall and Braque were sold through this intermediary, Baltser. It was all done through an English limited partnership.

When the Government tightened up on Scottish limited partnerships, criminals moved to other forms, as the hon. Member for Glasgow Central said. I quote to the Minister a Russian-language newsletter that was circulated to clients by a formation agency called LAS, which said, after the UK tightened up on Scottish limited partnerships, that there is always a way out:

"As a substitute for Scottish partnerships, we offer the registration of English, Welsh and Irish LP partnerships, which have an identical legal form and similar benefits…At the moment, the privileges of this type of partnership are that they do not fall and will not fall under the laws on the disclosure of information about controlling persons."

Transparency International's report, which the Minister has quoted previously in our debates, shows how the structures are open to abuse by bad actors. It analysed 1,628 limited liability partnerships used in various corruption and money laundering schemes over a 12-year period between 2004 and 2016 for the nationality of the person of significant control. Russians were the most frequent nationality, at 17%; UK nationals were 16%; and Ukrainians, 15%. Nationals from the combined former Soviet states constituted half of those in the disclosures. That is a good red flag. The benefit of the persons of significant control register is that it would provide that red flag if it was extended elsewhere.

Limited partnerships are used by formation agencies, over whom there is also a red flag. Finance Uncovered and the BBC found that the five busiest formation agencies in 2017 created 28% of all English limited partnerships created that year.

11.25 am

The Chair adjourned the Committee without Question put (Standing Order No. 88).

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

Twelfth Sitting

Tuesday 15 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 19 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 15 November 2022

(Afternoon)

[Mr Laurence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 100

Required information about partners

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 considering the following:

That schedule 4 be the Fourth schedule to the Bill.

Clause 101 stand part.

Clause 102 stand part.

New clause 56—*Limited partnerships: registration of persons of significant control—*

"(1) The Secretary of State must by regulations make provision about the registration of persons of significant control in relation to limited partnerships.

(2) For the purposes of regulations under this section, 'persons of significant control' may include persons with a right to—

(a) 25% or more of the surplus assets on winding up,

(b) a voting share of 25% or more,

(c) appoint or remove the majority of managers,

(d) exercise significant influence or control over the business, or

(e) exercise significant influence or control over a firm which would be a person of significant control if it were an individual.

(3) No regulations to which this section applies may be made unless a draft of the statutory instrument containing the regulations (whether or not together with other provisions) has been laid before, and approved by a resolution of, each House of Parliament."

Dame Margaret Hodge (Barking) (Lab): I am not going to recap, because we want to make progress, but I hope the Minister is listening. We are talking about a way of improving transparency, accepting that the new clause is not the perfect answer.

English limited partnerships have no directors, but they do have individuals required to sign paperwork, and the formation agencies that help to establish such limited partnerships often hire proxies to do that. A great example of that is Ruth Neidhart, a 71-year-old Swiss national who lived in Cyprus. She is a ceramic artist, she sometimes arranges pottery painting sessions for children's birthday parties, and she has been signing documents for a formation agency called IOS since at least early 2009. We see that see that she has signed 161 of these ELPs since 2016 and has links to IOS companies in Nevis, the British Virgin Islands, Belize and the Bahamas, all offshore firms that have been used to form UK shell companies.

Alexandru Terna, a 32-year-old Romanian who lives on a busy road junction in west London in what is described as "a modest house", has signed 306 of these ELPs. He said in an email to Finance Uncovered, which covered the story:

"We worked only with [LAS],"

the formation agent. He added:

"We have never been involved in the management or control of any of these companies or any other company, where we were appointed as signatories."

I thought that was interesting. Then we have the infamous Moldovan bank fraud, where $1 billion vanished from three Moldovan banks in just two days through limited partnerships—a series of Hong Kong and UK-registered companies. The new owners took over the bank in 2012, buying shares and using funds from UK limited companies.

The Government argue that these limited partnerships are not legally separate from their partners and so they cannot be beneficially owned. However, the person of significant control requirements require control—that is the issue—and not necessarily ownership. There does not have to be separate legal personality and ownership for there to be significant control, and if there is a corporate partner, there must be a human being controlling that corporate partner. The corporate partner cannot exist without somebody controlling it.

The PSC is defined as somebody with more than 25% of assets or more than 25% of voting share, or—this is another aspect of the definition—who exercises significant influence or control over the business. In practice, all the leaked documents we have seen from journalists show that formation agencies routinely create ELPs and issue clients with documents that declare them as beneficial owners, so they use that term anyway; they see them as beneficial owners. Indeed, ELPs also open bank accounts. There is somebody behind them, and we need to try to get to that person.

I accept that what we are proposing is not a perfect answer, but I think it is better than the status quo. We would get nominees putting themselves forward, and we would get company service providers declared as persons of significant control, but the same nominee appearing frequently would be a red flag, and company service providers reappearing in relation to lots of companies would also be a red flag. Remember: transparency is the best disinfectant.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I am very pleased to respond to the right hon. Lady's speech. In relation to some of the issues we have with limited partnerships, she has set out her case very well and fairly.

Through the Bill, we are trying to make it easier for Companies House to spot exactly the kinds of red flags the right hon. Lady has referred to. She mentioned people such as Alexandru Terna. Under this legislation, for the first time, significant penalties will accrue to somebody who does not declare their partners accurately. As I have said on a number of occasions in recent days, I am sympathetic to a number of the right hon. Lady's amendments, including new clause 56. I understand the reasons why she has tabled it.

The new clause would partially duplicate the Scottish Partnerships (Register of People with Significant Control) Regulations 2017. Scottish limited partnerships have

legal personality, meaning that in the eyes of the law they are a separate legal entity and have distinct duties and liabilities to those of their partners. It is therefore possible to apply persons of significant control requirements to those entities. As the right hon. Lady said, the same is not true of English, Welsh or Northern Irish limited partnerships, which do not have legal personality. Unlike SLPs, those forms of limited partnership register with Companies House but are not a separate legal entity from their partners. The partners are the embodiment of the partnership; as such, legislating for the registration of people who have significant influence or control over an English, Welsh or Northern Irish LP is legislating for the registration of people who control other people. I will return to that point in a second.

Not having legal personality means that limited partnerships cannot own property or assets in their own name; any assets are held in the name of the partners themselves. They are a registrable legal relationship, and can be thought of a bit like a marriage: the act of registering gives the relationship legal force and bestows rights and duties on the partners, but it does not create something separate that can be owned. Like a marriage, a partnership ends on the death of a partner.

It is therefore not legally possible to apply the persons of significant control requirements currently applied to Scottish LPs to English, Welsh and Northern Irish LPs. It would be possible to draft legislation for a different regime applying a different definition of beneficial ownership, but given that the partnership only exists as a business relationship between partners and its body exists in the person of the partners, it is not apparent who, beyond the partners, should be registered. A likely outcome would therefore be all limited partnerships reporting that no person met the requirements, other than those already registered as partners.

Nevertheless, I understand that the intention of the right hon. Member for Barking is to increase transparency about who is managing and controlling a limited partnership. That is why the clauses that we are debating will increase the amount of information that is available concerning the partners of a limited partnership, and place a legal duty on partners to update those details with the registrar. In addition, the identities of all general partners must now be verified, and any corporate general partner must name an individual who may be contacted in relation to the limited partnership and whose identity must also be verified.

Although the right hon. Lady admits that her new clause is not a perfect solution, she has raised a good point. In consultation with her and officials, I will give further consideration to this matter, to ensure that there are no other means by which somebody may have undue control over a limited partnership. I am keen to work with her and discuss how we might do that.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to say a few words on this topic—we have had a very good and extensive debate on these clauses, so I will limit my remarks.

I think we are in violent agreement that more needs to be done. I made remarks earlier about the extent to which we have seen the misuse of partnerships grow. Research in the past eight to 10 years has shown the growth in the formation of limited partnerships and the extent to which they are used for economic crime. We have taken a long time to get here, but it is useful and important that we are now at this point.

Schedule 4, which is inserted into the Bill by clause 100, sets out information that must be provided to the registrar by partners who are individuals and corporate bodies in relation to limited partnerships. I think we all support the introduction of these measures as necessary for increasing the information and transparency around who actually owns and controls limited partnerships. As the Minister is responding to the points and questions raised by my right hon. Friend the Member for Barking, I think those points about transparency and how that works across these clauses and the framework of the legislation as a whole are extremely important.

There is a transitional period of six months for compliance after the Bill comes into force, and the Bill provides that non-compliance will be

"treated by the registrar as reasonable cause to believe that the limited partnership has been dissolved".

We have raised related questions in the course of debate. Although we may recognise the need for a transitional period, why are we waiting six months? What reassurances can the Minister give us that there are adequate safeguards against limited partnerships that have been set up for criminal purposes simply taking no action during the six-month period in order to avoid scrutiny and transparency?

The Minister may refer us to other parts of the Bill where we have discussed what can happen when companies get dissolved. However, we do not want to strengthen the legislation on one hand but, on the other, provide a way for those who have been using these vehicles for years, given the scale of economic crime that the research suggests, to have a "get out of jail free" card because of the time allowed for compliance and the lack of scrutiny of what is happening.

On new clause 56, I am really pleased that the Minister recognises the arguments that have been made, and his openness about wanting to work together. As my right hon. Friend the Member for Barking said, the wording may not be perfect, but let us work together on the solution. That is important if the Committee is to make sure that the legislation is improved prior to its return to the whole House on Report.

I think it is worth saying that those who have given evidence to the Committee will also be looking for changes. There have been numerous reports by the Government themselves highlighting the use and abuse of the limited partnership model for the purpose of economic crime. To give one example, when giving evidence to the Committee, the legal professor Elspeth Berry said of limited partnerships:

"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".—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 103, Q194.]

Clearly, there is opinion among experts that mirrors the wider concerns that we have heard about the opaqueness of ownership and control information around limited partnerships.

2.15 pm

If the Government are truly to clamp down on the use of limited partnerships to commit economic crime, measures such as new clause 56 are a vital part of the

toolkit. I urge the Minister to do what he said he would and take the matter away, but we want something concrete to come back that provides the strongest possible mechanisms and safeguards, and greater transparency about who truly owns and controls limited partnerships and Scottish limited partnerships.

Kevin Hollinrake: It is clear from the number of different things that we have discussed over recent days that we need to work on a number of points to improve the legislation. There is no question about that, and I am grateful to hon. Members for their contributions to that end. The shadow Minister raised the six-month transitional period. Clearly, we are trying to strike a balance between rooting out wrongdoing and ensuring that legitimate organisations have time to provide the information. I think it is a reasonable time period. It may be that something happens as she described, and some nefarious activities are—

Seema Malhotra: Will the Minister consider this a little further in the light of the fact that the Bill's provisions will not come as a surprise? The Bill has been introduced, there has been Government documentation and consultation, and so on. Might the six months be looked at again in the light of that fact?

Kevin Hollinrake: I was going on to say that I think the period is fair. As the hon. Lady knows from the debate that we have had over recent days, the way the legislation works is that a number of different pressure points are applied to those who are potentially guilty of wrongdoing. The dissolution of a partnership may well be a red flag for Companies House in certain circumstances, together with other information that it may glean, including from the confirmation statements that general partners have to submit—those are combined with criminal sanctions, of course—and information sharing. All those things come together in this holy alliance to clamp down on the opportunities created by limited partnerships and other vehicles that we have discussed. I think it is a fair balance, but I am always happy to continue to debate these things.

Question put and agreed to.

Clause 100 accordingly ordered to stand part of the Bill.

Schedule 4

REQUIRED INFORMATION

Amendment made: 50, in schedule 4, page 164, line 1, leave out "registered or".—*(Kevin Hollinrake.)*

This amendment would mean that, in relation to the registration of limited partnerships, the required information that must be provided about a partner that is a legal entity includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Schedule 4, as amended, agreed to.

Clauses 101 and 102 ordered to stand part of the Bill.

Clause 103

A LIMITED PARTNERSHIP'S REGISTERED OFFICE

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clause 104 stand part.

Kevin Hollinrake: Currently, limited partnerships must provide a proposed principal place of business only on registration. There is a requirement to notify the registrar if the principal place of business changes, but the penalty is just a fine of £1 per day, which does not effectively deter non-compliance. There are many cases where limited partnerships have not informed the registrar that their principal place of business has changed, meaning that she is unable to notify them of any changes or serve documents on them.

Clause 103 therefore introduces a requirement for general partners to maintain a registered office address that is in the original jurisdiction of registration in the United Kingdom and keep this up to date. This means where the principal place of business changes, including by moving abroad, the registrar still has a UK registered office address on record for the limited partnership. An important attraction of limited partnerships for legitimate businesses is the flexibility to move their principal place of business abroad. The clause therefore retains that flexibility while also ensuring the registrar has an appropriate address in the United Kingdom for contact and potential enforcement purposes.

The clause also sets certain conditions for the address to shore up the limited partnership's connection to the UK and allow scrutiny of the limited partnership. For example, the address must be able to be used for communication purposes and it must be possible for the delivery of documents there to be recorded by an acknowledgement of delivery. The address must be either the limited partnership's principal place of business, the usual residential or office address of a general partner, or the address of an authorised corporate service provider that is acting for the limited partnership.

The general partners of limited partnerships can change the registered office address, but they must inform the registrar of the change and confirm that the new registered office address is an appropriate address. This is a critical part of limited partnership reform. Failure to meet the address requirements will be an offence and may result in a substantial fine. The clause mirrors changes made by part 1 of the Bill to powers for the registrar to move registered office addresses, either on application or on the registrar's own motion, where the address fails the "appropriate address" test.

Clause 104 extends the requirement to have a registered office address to limited partnerships that were registered before commencement of the Bill. It gives them a period of six months to comply with the new requirements. The end of the transition period will provide the registrar with a point at which to assess which limited partnerships have failed to comply and may therefore be inactive. The registrar can then treat the limited partnership as dissolved and update the register accordingly, which will assist enforcement and compliance activities.

Seema Malhotra: I thank the Minister for his remarks. I have some brief comments to make about clauses 103 and 104 stand part. The Minister has outlined what the clauses do. Clause 103 inserts a new section into the Limited Partnerships Act 1907 that establishes on general partners of limited partnerships a duty to ensure that the firm's registered office is at all times an appropriate address at which to receive correspondence. The clause introduces a new power for the Secretary of State to make regulations giving the registrar the power to change

a limited partnership's registered office address. The appropriate address is supposed to be within the original jurisdiction.

While new regulations on the addresses of limited partnerships are needed, Elspeth Berry, a legal expert on limited partnerships, set out in her written evidence to the Committee concerns about this element of the Bill. She said:

"The requirements for an "appropriate" registered office address or email are an improvement but do not guarantee a genuine economic link to the UK…The "appropriate" address for the registered office, and email address, ensure that the address is used with consent, and someone will answer. However, the provisions still lend themselves to maildrops, with no real economic presence. None of the options intended to link an LP to the UK demonstrate a real economic link. Option 1 is apparently already complied with by most rogue LPs already, because they have no real place of business in the UK, so anywhere can be the "principal" place. Option 2, the usual residential address of a partner, can be redacted, so redaction must not apply if it is also chosen as the registered office. Option 3 is the address of a corporate general partner, with all the lack of transparency that entails. Option 4 is an ACSP address, which can be a maildrop."

Will the Minister respond to those concerns? What assurances have the Government received that the provisions in the clause will genuinely guarantee the economic link to the UK that is intended? If not, will he look again at this part of the Bill? It would be a shame to get to the point of the Bill becoming an Act without it being able to do what is intended.

Clause 104 provides for a six-month transitional period during which the general partners of existing firms must submit a statement specifying the firm's registered office, per the regulations set out in clause 103. Will it really take six months to specify an address? Is that not something that the Minister can look at? Other provisions of the Bill refer to 28 days, so why this six-month period? Perhaps six months emerged from a consultation as the most effective option, or it has simply been passported into the Bill because that is in alignment with some other regulation. Was it just cut and paste? If, however, not much thought has gone into this transition period, and if there are no downsides to doing so, we have an opportunity to amend,. Again, I will be grateful for the Minister's response.

Alison Thewliss (Glasgow Central) (SNP): I very much agree with the hon. Member for Feltham and Heston. Without rehashing our previous arguments about addresses—checking whether they are real addresses and whether someone can pick up mail there, which requires people going to make such checks—I note the concerns of the Law Society of Scotland that "principal place of business" could still be a bit unclear. It points out in its briefing that a number of other concepts already exist in legislation, such as "head office", "establishment" or "centres of main interest". That makes things confusing and more easy to get around if people wish to do so.

The society believes that another issue has emerged, in part owing to covid: not everybody has a principal place of business as we used to understand it—a head office with a sign above the door. That is what we were used to seeing, but now that people work remotely, sourcing a principal place of business might become more difficult. Businesses have adapted, so it will be useful to understand from the Minister whether such things will be caught by the legislation. Someone might not have a traditional headquarters in the old way, and so might not be caught by the legislation. I seek his assurance about the intention of the Bill.

The Law Society of Scotland briefing also points out that members of a management team might not all be based in the same location; they might be working remotely or in different countries around the world. Again, sourcing that person who has responsibility at a principal place of business has become a little murkier as a result of changes in working practices. We need to ensure that legislation keeps pace with that and that there is not a workaround for those who want to avoid scrutiny.

Kevin Hollinrake: A few minor points have been made additional to the ones that have been discussed before. The shadow Minister, the hon. Member for Feltham and Heston, asked about the corporate general partner. Clearly, there is still a person behind a corporate general partner—an officer has to register their identity behind the corporate general partner, so there is an actual person behind it.

The shadow Minister also referred to the six months. As I said, I think that is a reasonable period, but she might think differently and seek to amend it on that basis. To me, it is not just about the time period, but about the other points—the foundations of the Bill, which are the sanctions, the red flags and the sharing of information. Those are the important things. The downside she mentioned is the impact on legitimate businesses, for which the time period may not be sufficient.

Clearly, there is a link to the UK in terms of how the entity is established. The limited partnership is established and has to maintain its registered address. I do not think that any of these measures contain a requirement to have an economic link to the UK, but I will discuss that with officials.

2.30 pm

Dame Margaret Hodge: The Minister said earlier something that I did not think was the case. I thought that corporate general partners did not have to register the person behind the company. That is the problem: people register the company without registering the person.

Kevin Hollinrake: No, that is not the case.

Dame Margaret Hodge: Are you sure?

Kevin Hollinrake: Absolutely, although I will clarify that with my officials. We discussed this issue before. I will confirm it later today, if I can, but I am sure that that is the case.

There is no requirement to have an economic link. The link is with the person, the general partner and the limited partners, and the UK-based address. That is the link to the UK that these measures seek to ensure.

Question put and agreed to.

Clause 103 accordingly ordered to stand part of the Bill.

Clause 104 ordered to stand part of the Bill.

Clause 105

A limited partnership's registered email address

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 106 stand part.

Kevin Hollinrake: The two clauses mirror the provisions in clauses 30 and 31, which we debated previously. They apply to limited partnerships the registered email requirements introduced for companies. Clause 105 requires limited partnerships to have a registered email address. The email address must be "appropriate", which means that

"in the ordinary course of events, emails sent to it by the registrar would be expected to come to the attention of a person acting on behalf of the limited partnership."

Clause 106 provides for a transition period of six months for existing limited partnerships to provide an appropriate email address to the registrar. If, at the end of six months, a limited partnership has failed to supply an appropriate email address, the registrar will have reasonable cause to believe that the limited partnership is dissolved. That will mean that the confirmation of dissolution process, which we will debate later, is open to the registrar, who may consequently move to deregister the limited partnership.

Seema Malhotra: It is a pleasure to speak to clauses 105 and 106. As the Minister said, clause 105 inserts new provisions in the Limited Partnerships Act 1907. The new measures provide that all general partners must maintain an appropriate email address. The Minister has probably outlined this before, but it is helpful to consider what we mean by "appropriate". Email addresses can be anything—for example, mylp@gmail.com—or they could be more robustly connected to an entity. Will the Minister say anything further about the definition of an appropriate email address? Is it just one that works and to which somebody responds in the end? A failure to comply would be an offence, and it is right that a general partner could face a fine.

Clause 106 gives the general partners of a limited partnership a six-month transition period in which to submit their email addresses to the registrar and comply with the provisions introduced by clause 105. I think the Minister knows exactly what my concerns are about how long it can take to register an email address with the registrar. The most honest businesses and those doing the best are probably more likely to comply more quickly. Again, I make the point that it feels as though six months is an extremely long time for limited partnerships to comply with these new measures.

Kevin Hollinrake: The hon. Lady asked about the definition of an appropriate email address. As I said, it is an appropriate email address if emails sent to it would be

"expected to come to the attention of a person acting on behalf"

of a limited partnership. I think that is pretty clear—it has to be an address that can receive emails and to which somebody can respond.

On the question asked by the right hon. Member for Barking, where the partner is not an individual but a firm or body corporate, information is also required on the individuals involved in the management of those firms. That includes making sure that there is a named contact.

Question put and agreed to.

Clause 105 accordingly ordered to stand part of the Bill.

Clause 106 ordered to stand part of the Bill.

Clause 107

Restrictions on general partners

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

New clause 49—*Requirement for all company directors to be natural persons—*

"The Secretary of State must, on a date no later than 31 March 2023, make regulations to bring into force section 87 of the Small Business, Enterprise and Employment Act 2015 (Requirement for all company directors to be natural persons)."

This new clause would bring into effect provisions of the Small Business, Enterprise and Employment Act 2015 enabling a ban on the designation of a company as the beneficial owner of another company, requiring all company directors to be "natural persons".

New clause 57—*Limited Partnerships required to have at least one partner who is a natural person—*

"(1) A limited partnership must have at least one partner who is a natural person.

(2) This requirement is met if the office of partner is held by a natural person as a corporation sole or otherwise by virtue of an office.

(3) For the purposes of this section, "limited partnership" includes Scottish limited partnerships and limited partnerships in Northern Ireland."

New clause 58—*Limited Liability Partnerships required to have at least one member who is a natural person—*

"(1) A limited liability partnership must have at least one member who is a natural person.

(2) This requirement is met if the office of member is held by a natural person as a corporation sole or otherwise by virtue of an office."

Kevin Hollinrake: Clause 107 requires a limited partnership to confirm on application for registration that none of its general partners are disqualified under directors disqualification legislation. It also introduces a duty on all general partners of a limited partnership to take any steps necessary to remove a disqualified general partner on pain of criminal sanction for failure to take those steps.

General partners are responsible for the management of limited partnerships, including the movement of funds. There is currently nothing in place to remove a general partner from a limited partnership once they become disqualified. The clause is needed to ensure that disqualified individuals are prevented from being general partners of a new limited partnership set up after the Bill and to ensure that existing general partners of

extant firms who become disqualified, or already are when the Bill comes into force, cease to be a general partner.

New clause 49 would require the Secretary of State to make regulations under section 87 of the Small Business, Enterprise and Employment Act 2015, which amended the Companies Act 2006 to require all company directors to be natural persons, with the power to make exceptions in regulation. I have every sympathy with the intention of the amendment, which challenges the Government to act on something they have long promised. I am happy to commit to the Committee that such regulations will be made soon.

Stephen Kinnock (Aberavon) (Lab): Is that like shortly?

Kevin Hollinrake: Very similar. It is sooner than shortly. The ban on the appointment of corporate directors will not and should not be absolute. That is why the Companies Act provides for a delegated power to create exemptions by regulations. Those regulations will address the limited circumstances under which a company will be permitted to have a corporate director. It is important that those regulations are in force before we ban the appointment of any corporate directors and are aligned with the new reforms proposed in the Bill.

Dame Margaret Hodge: I am grateful, thinking about my new clause, because it sounds like there might be movement on that. I want to ask the Minister a difficult question: what are the legitimate reasons for limited liability partnerships to have a corporate member? What on earth is a legitimate reason? I cannot think of one.

Kevin Hollinrake: It might be an investment fund. It might be an insurance company or a collective around investment funds that derive returns for our pensions for millions of people up and down the country. It may well be that a corporate body is part of that limited partnership. I think that is perfectly reasonable, and I imagine we would expect that to be the case.

Dame Margaret Hodge: Even in that case, why not have a natural person—a named individual? I just do not get it.

Kevin Hollinrake: That is exactly what we have. Does the right hon. Lady mean in terms of companies, or in terms of limited partnerships?

Dame Margaret Hodge: Yes, in companies; no, I mean in limited partnerships. Apologies.

The Chair: Order. We cannot have a general conversation. The person speaking is the person I call to speak—at the moment, that is the Minister.

Kevin Hollinrake: I am happy to give way, for clarification.

Dame Margaret Hodge: Apologies to you, Mr Robertson. I got carried away. I am talking to limited liability partnerships. I cannot see the point of hiding behind a corporation rather than having a natural person.

Kevin Hollinrake: There is a bit of confusion generally about the difference between limited partnerships and limited liability partnerships. I think we are talking about limited partnerships here.

Dame Margaret Hodge: Yes.

Kevin Hollinrake: A named individual will be required for corporate partners—namely, a registered officer. I made that commitment earlier in the debate. I hope the right hon. Lady will be reassured on that point.

Seema Malhotra: On a point of clarification, the Minister just talked about limited partnerships, where a named individual is required. I know this is confusing. Would the situation be the same in relation to limited liability partnerships?

Kevin Hollinrake: Yes, as I understand it, but I will get clarification on that.

Dame Margaret Hodge: I am trying to think this through properly: I may be wrong. In the circumstances where the corporation is offshore—an offshore company owns it—would there have to be a natural person named?

Kevin Hollinrake: Yes. There is no distinction between companies or corporate partners operating offshore to those that are operating onshore. There will be a registered officer in all circumstances.

The regulations will address the limited circumstances under which a company will be permitted to have a corporate director. It is important that the regulations are in force before we ban appointment of any corporate directors, that they are aligned with the new reforms proposed in the Bill and, most importantly, that identity verification of the officers of the corporate director can be carried out.

It is the Government's intention that any corporate director be as transparent and accountable as a natural person and therefore we intend to make our corporate director regulations come into force alongside the regulations enabling identity verification. Introducing those regimes will be one of the implementation priorities post Royal Assent. I repeat my commitment to the Committee that the regulations will be brought forward.

I understand that the intention of new clause 57 is to ensure that limited partnerships should always have a partner who is a natural person, in order that the person might be contacted in relation to that limited partnership's activities. Clause 108 inserts proposed new section 8K into the Limited Partnerships Act 1907: the new section places a duty on limited partnerships to have a registered officer who is a natural person for any general partner who is a legal entity and goes on to place strict duties for notifying any changes to that person to the registrar.

The duty in the proposed new section applies only to general partners and not all partners because limited partners are not permitted to engage in management activities. The objective of the new clause in the name of the right hon. Member for Barking would not be met if a limited partnership's only natural person was a limited partner, because they would not be permitted to correspond with or act in relation to a notice from the registrar.

New clause 58 targets the misuse of limited liability partnerships in opaque corporate structures. While I sympathise with the intent, I cannot support the new clause. UK limited liability partnerships have been named in a number of international money laundering scandals. Many of those will have partners that are solely corporate structures. I am concerned about the abuse, but just as with companies, there can be legitimate reasons why a

[Kevin Hollinrake]

limited liability partnership might have all corporate partners. For instance, an investment company might a manage a pension fund for a limited partnership. The investment company would be the general partner and manage investments for the limited partners, which generate pension income. It is important for us to get the balance right.

2.45 pm

We will extend the requirement for identity verification to limited liability partnerships through secondary legislation. Where a limited liability partner is a corporate entity, we will require it to name a managing officer who must have their identity verified. I think that confirms the point that the hon. Member for Feltham and Heston just raised. Registrations of corporate members that are not accompanied by a verified person in a management position will be rejected. The Government will also consider whether any further restrictions on the use of corporate members' LLPs will help to mitigate the risk of misuse without affecting the legitimate use of these structures, particularly in the investment sector.

I look forward to hearing the Opposition's views in due course. I trust that my explanation and assurances will satisfy the Committee and that the new clauses will be not be pressed to a vote.

Dame Margaret Hodge: That was a very useful contribution, and I thank the Minister. Through these new clauses we are simply trying to strengthen transparency so we know who is behind the corporates structures. Before the Minister was in his post, the Government themselves cited in their White Paper on corporate transparency three massive scandals: the Azeri scandal, Danske Bank and the Moldova bank fraud. All of those involved limited partnerships or limited liability partnerships, which have the features of a corporate entity acting as a partner and were located offshore in one of the secrecy jurisdictions. We are trying to get at that with these new clauses. If we have not got them quite right, I look forward to the Minister coming forward with other propositions.

It is the opaque corporate structures that hide the true identity of the individual who owns or controls a company. That is a classic way that bad people hide their dirty money. This is not an exception—I know that the Minister likes to sometimes say that, but the recent Transparency International analysis of limited liability partnerships found that one in 10 had the identical characteristics to entities that are involved in serious financial crime. That is quite high, and just another red flag. These companies were a newly formed identity, entered immediately into deals and laundered the money or were suspected of laundering the money. Very shortly after the wrongdoing, they closed the company. An awful lot of times I have come across companies with no financial history. They never submit any accounts to HMRC and claim that they have no assets in the accounts. A company might be using nominees and secret offshore jurisdictions, which we have talked about.

The other interesting thing in the Transparency International evidence, which the Minister might want to reflect on, is that out of the 1,532 companies that they looked at, 94% had at least one corporate partner with a registered address in one of 21 high-risk jurisdictions—the BVI, Belize and so on. I like to have these little stories to tell: there is the bottle laundromat that the Minister will know well, which ended up with £750 million being laundered out of Russia, stolen from the Russian people between 2014 and 2016. Some 130 companies were used. They falsified sales to Russia of bottle-making machines. They never really produced the machines, but in paying for them, they got the money out of Russia. There were three UK LLPs, all of which had two or more offshore corporate partners from one or more high-risk jurisdictions behind them.

This is not an insubstantial problem: it is a big problem. These are not just exceptional occurrences; they occur with too much frequency. What we are trying to do here is not a silver bullet, but we think it is part of the jigsaw that needs to be put together to improve transparency and therefore make things more difficult for people who engage in money laundering and other crime and for people to hide who they are. We are just saying that one natural person should be listed on the board. I am a bit unclear as to whether our proposal would actually achieve that or whether there are other ways of getting to the same objective, one that I think we probably share. I do not know why—I find it a bit odd—we in the UK are offering UK legal protection and privileges, things like limited liability or the rule of law, and sort of by accident we are offering anonymity to people offshore who are not in the least bit troubled by UK law, because they are completely beyond its reach. It seems to me that the current structure enables that to happen.

The new clauses would ensure that partners or members could no longer hide behind offshore corporate partners and members without a named individual being on the line for—held to account for—any wrongdoing. We will still, I know, get nominee directors. Trust and company service providers will still put themselves forward as the named people, or people working in TCSPs will still do it. But I think that this proposal would help with raising red flags and enabling Companies House to focus its activity on those areas where there is the greatest danger.

Seema Malhotra: It is a pleasure to speak to these measures. We have had quite an extensive debate, so I will make just some limited remarks on clause 107 and new clauses 57 and 58. Clause 107 is a very important clause, inserting a requirement on registration for confirmation that a limited partnership's proposed general partners are not disqualified under the director's disqualification regime. It also inserts, under proposed new section 8J, a new duty to take steps to remove a general partner who is disqualified. If general partners fail to do that, they will be liable to an offence.

Those requirements are extremely important. I think that some of the debate is just on where some measures perhaps do not go far enough. In summary, we support the arguments made by my right hon. Friend the Member for Barking on new clauses 57 and 58.

I want to read out another contribution from Professor Berry. I think it is important to keep these contributions on the record in our discussions—recognising as well some of what the Minister has said. As Professor Berry set out in her written evidence to the Committee about the issue of corporate directors, ascertaining an individual

acting as a director through a body corporate is certainly more opaque than if the director is just a natural person. The situation is very confusing, but I will read out what the professor said. She stated that

"the concept is demonstrably open to abuse, a ban"

on corporate directors

"was originally proposed in the interests of accountability and transparency, and a legal entity is incapable itself of carrying out the functions or duties of a director…Not only are corporate partners/LLP members a significant feature of wrongdoing…the attempts in the Bill to trace an individual somewhere behind them are so complex as to be unworkable in practice…impossible in practice for CH to check, and an obvious route for obfuscation by wrongdoers. E.g the concept of a named officer or of a managing officer of a corporate partner (and presumably of an LLP member), compounded by the fact that a named officer's residential address can be redacted and they need not supply a service address."

As the Minister reflects on our discussions and how we move forward, he should bear in mind the concerns raised by Professor Berry. Whatever is brought forward by the Government—however they have reconsidered it, and tested what it will do and mean in practice—does it pass the Professor Berry test, and meet the challenges that have been put to us regarding the legislation and what could otherwise slip through the net?

Kevin Hollinrake: I think it passes that test; it certainly seems to pass the test of the new clause tabled by the right hon. Member for Barking. In her remarks, she said that we are just looking at one person behind that corporate entity: that is exactly what we are achieving through the regulations, making sure that there is an actual person—a registered officer, a managing officer—who sits behind any corporate entity. That person will be verified, with a UK address. The TCSPs within those organisations, to which the right hon. Lady referred, will also have their identify verified, and anyone who is found guilty of false filing could face significant fines and jail sentences. I think the Bill achieves what she has set out, but as I said in my earlier remarks, I am happy to consider what further restrictions on those corporate entities might be appropriate.

Question put and agreed to.

Clause 107 accordingly ordered to stand part of the Bill.

Clause 108

Officers of general partners

Kevin Hollinrake: I beg to move amendment 18, in clause 108, page 86, line 32, at end insert

", and

(b) confirming that the proposed registered officer meets the requirement in section 8K(1)(c)(i) or confirming that the proposed registered officer meets the requirement in section 8K(1)(c)(ii)."

This amendment would require each general partner that is a legal entity to state, in an application for registration of a limited partnership, whether its registered officer is identify verified or exempt.

The Chair: With this it will be convenient to discuss the following:

Government amendments 19 to 24, 26 to 28, 37 and 41.

Government new clause 9—*National security exemption from identity verification.*

Kevin Hollinrake: Amendments 18 to 24 and 26 to 28 make changes to clauses 108 and 111 of the Bill to extend identity verification requirements to registered officers of corporate general partners of limited partnerships. General partners will be required to confirm whether their registered officer is identity-verified or exempt when registering a limited partnership, becoming a general partner, changing a general partner, or changing the registered officer. A failure to do so will result in those general partners committing an offence. Each proposed registered officer will also be required to confirm whether they are identity-verified or exempt. The corporate general partner will be required to maintain a registered officer, who will have to be verified at all times unless exempted from those requirements.

The other amendments in the group mirror the changes made by clauses 64 and 65, the principles of which we have already debated. They include allowing the Secretary of State to make regulations setting out exemptions to the ID verification requirement. Exemptions may be warranted: for example, where it would not be appropriate to require a registered officer who has already undergone sufficient checks as part of their appointment process to verify their identity. Similarly, the amendments also mirror the regulations requiring statements about identity verification to be accompanied by other statements or other information; making statements relating to ID verification unavailable for public inspection; and introducing an identity verification exemption on the grounds of national security, or to prevent serious crime.

Seema Malhotra: We will keep our comments on this first group of amendments very brief. Broadly, we support these amendments. I would like clarification on a couple of points about amendments 22 and 37 and new clause 9.

3 pm

Amendment 22 makes regulations providing for exemptions from identity verification requirements subject to the affirmative resolution procedure. Will the Minister expand on in what instances it might be necessary for proposed officers to be exempt from identity verification requirements? He gave an example of a person who has already gone through some identity verification process, so is it more a case of people not having to go through similar processes again? Is that what the Minister intended? Will there be any safeguards so that there is no abuse of the exemptions process?

New clause 9 allows the Secretary of State to exempt a person from certain requirements that relate to identity verification if they are satisfied that doing so is necessary for national security-related reasons. That takes me back to our previous discussions about whether the use of that power will be flagged, without going into unnecessary detail, and through what route? Will the use of exemptions be reported in a report to Parliament or to the Intelligence and Security Committee of Parliament, or to the Intelligence and Security Committee on Privy Council terms? A report might even include just the number of instances, as that would enable some controls and transparency around the use of these powers by the Secretary of State.

Kevin Hollinrake: The hon. Lady is quite right. Exemptions might be applied where somebody's identity can be confirmed without verification. An example

[Kevin Hollinrake]

could be a director appointed by the community interest companies regulator under section 45 of the Companies (Audit, Investigations and Community Enterprise) Act 2004. The CIC regulator and its office is part of a Government Department that is co-located within the registrar. That is simply to ease the burden of bureaucracy where unnecessary.

We expect the powers to be used very rarely. We discussed the matter at length earlier in our proceedings and we do not think there is any reason to go further than that at this point in time. I am sure it is a matter for further debate as we progress.

Amendment 18 agreed to.

Amendments made: 19, in clause 108, page 87, line 11, at end insert

", and

(ii) confirming that the individual meets the requirement in section 8K(1)(c)(i) or confirming that the individual meets the requirement in section 8K(1)(c)(ii)."

This amendment would require each proposed registered officer to confirm, in an application for registration of a limited partnership, whether they are identify verified or exempt.

Amendment 20, in clause 108, page 87, line 24, leave out "and".

This amendment is consequential on Amendment 21.

Amendment 21, in clause 108, page 87, line 26, at end insert

", and

(c) either—

(i) is an individual whose identity is verified (within the meaning of section 1110A of the Companies Act 2006), or

(ii) falls within any exemption that may be specified by regulations made by the Secretary of State for the purposes of this sub-paragraph."

This amendment would require a general partner's registered officer to be identity verified or exempt.

Amendment 22, in clause 108, page 88, line 22, at end insert—

"(7) Regulations under subsection (1)(c)(ii) are subject to the affirmative resolution procedure."

This amendment makes regulations providing for exemptions from identity verification requirements subject to the affirmative resolution procedure.

Amendment 23, in clause 108, page 88, line 33, leave out from "partner" to end of line 35 and insert—

"(i) confirming that the new registered officer meets the requirements in section 8K(1)(a) and (b), and

(ii) confirming that the new registered officer meets the requirement in section 8K(1)(c)(i) or confirming that the new registered officer meets the requirement in section 8K(1)(c)(ii), and".

This amendment would require a general partner, when changing its registered officer, to specify whether its new registered officer is identify verified or exempt.

Amendment 24, in clause 108, page 88, line 38, at end insert

", and

(ii) confirming that the individual meets the requirement in section 8K(1)(c)(i) or confirming that the individual meets the requirement in section 8K(1)(c)(ii)."—*(Kevin Hollinrake.)*

This amendment would require a new registered officer to confirm whether they are identify verified or exempt.

Kevin Hollinrake: I beg to move amendment 25, in clause 108, page 91, line 6, at end insert—

"8PA Regulations about change of registered officers' addresses by registrar

(1) The Secretary of State may by regulations make provision authorising or requiring the registrar to change a registered service address of a registered officer of a general partner if satisfied that the address does not meet the requirements of section 1141(1) and (2) of the Companies Act 2006.

(2) In this section—

'registered officer' has the meaning given by section 8K(3);

'registered service address', in relation to a registered officer, means the address for the time being shown in the register as the registered officer's current service address.

(3) The regulations may authorise or require the address to be changed on the registrar's own motion or on an application by another person.

(4) The regulations—

(a) may include provision corresponding or similar to any provision that may be included in regulations under section 1097B of the Companies Act 2006;

(b) must include—

(i) provision about appeals corresponding to the provision that must be included in regulations under section 1097B by virtue of subsections (7) and (8) of that section;

(ii) provision corresponding to subsection (9) of that section.

(5) Regulations under this section are subject to the affirmative resolution procedure."

This amendment confers a regulation-making power to enable the registrar to change the registered service address of a registered officer of a general partner in a limited partnership.

The Chair: With this it will be convenient to discuss the following:

Government amendment 29.

Clause 114 stand part.

Government amendments 31, 35 and 36.

Kevin Hollinrake: Amendments 25, 29, 31, 35 and 36 aim to bring about alignment between companies and limited partnerships legislation. Amendments 25 and 29 enable the Secretary of State to make regulations that empower the registrar to take action to move a service address of a general partner, or a registered officer of a general partner, where it does not meet the requirements as set out in legislation, or where it is not the service address of the individual. Those two secondary legislation powers are sufficiently broad that the provisions in clause 114, which provide the registrar with a more narrowly drawn power to move service addresses, are no longer needed. Clause 114 should therefore not stand part of the Bill.

Amendments 31 and 36 are consequential on the fact that proposed new section 10A of the Limited Partnerships Act 1907 is no longer needed, and they remove cross-references to it. Amendment 35 ensures that when the registrar receives an application to change the service address, she will be prevented from making that information available for public inspection. The registrar will, however, have to make available for public inspection any court order or direction to change a service address.

Seema Malhotra: We broadly support the amendments. Clause 114 inserts a proposed new section into the Limited Partnerships Act 1907 that would give the registrar the power to change the service address of a relevant individual. Amendments 25 and 29 confer a regulation-making power to enable the registrar to change the registered service address or principal office address of a general partner in a limited partnership. Although we do not oppose the amendments, I would be grateful to understand why they are regulation-making powers. If there is a basis for legislating for the regulations, why are they not in the Bill? Is it just a case of creating the provisions now? It would be helpful to understand that.

Amendment 35 would mean that

"any application or other document delivered to the registrar under section 8PA, 8G or 8V (changes of addresses by registrar) other than an order or direction of the court"

would be unavailable for public inspection. What information will that cover? In the light of the transparency arguments being made, would any relevant information not be publicly available? As the Government have tabled a lot of amendments, it would be helpful to slightly disentangle some of their implications.

Kevin Hollinrake: I am grateful to the hon. Lady for her points. On why the amendments confer regulation-making powers, as she knows, regulations give us flexibility to change things more easily. The provisions of the regulations are probably moveable feasts. It is sensible not to have them in the Bill, but to be able to learn and change areas as we go along.

Amendment 35 would prevent documents relating to changes of address by the registrar under new powers from being made available for public inspection. If I can, I will get back to the hon. Lady later in the debate about the particular circumstances she described.

Amendment 25 agreed to.

Amendment made: 26, in clause 108, page 91, line 6, at end insert —

"8PB Registered officers: statements about exemption from identity verification

(1) The Secretary of State may by regulations make provision requiring a relevant statement delivered to the registrar to be accompanied by additional statements or additional information in connection with the subject-matter of the relevant statement.

(2) In this section "relevant statement" means a statement under any of the following provisions that confirms that a general partner's registered officer falls within an exemption from identity verification—

(a) section 8A(1C)(b) or (1F)(c)(ii);

(b) section 8L(3)(a)(ii) or (b)(ii);

(c) section 8Q(4)(b) or (7)(c)(ii);

(d) section109(2)(a) or113(2)(a) of the Economic Crime and Corporate Transparency Act 2022.

(3) Regulations under this section are subject to the affirmative resolution procedure."—(*Kevin Hollinrake.*)

This amendment allows the Secretary of State to make regulations requiring statements about identify verification to be accompanied by other statements or information. It mirrors the amendment to the Companies Act 2006 made by clause 64 of the Bill.

Question proposed, That the clause, as amended, stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 109 stand part.

Kevin Hollinrake: When registering a limited partnership, the names of the general partners are currently required. Not all general partners are individuals; they can instead be a business entity. That means there is often no named individual associated with that general partner or indeed the partnership. Clause 108 introduces a requirement for general partners that are legal entities to provide a registered officer for that entity. As I set out earlier, general partners must ensure that their registered officers are individuals and have had their identity verified. The clause also requires general partners that are legal entities with one or more corporate managing officers to have a named natural person contact for each of those corporate managing officers.

The measures will increase transparency of the partnership activity by further identifying who is involved in the chain of management. They also ensure that the registrar has a point of contact for the general partner for compliance and enforcement purposes. General partners who are legal entities are responsible for keeping that information up to date. If they fail to comply, they are liable for an offence and a substantial fine. That could also fall on any managing officers who are in default.

Clause 109 introduces a six-month transition period within which existing partnerships' general partners that are legal entities must bring themselves into compliance by submitting a statement to the registrar setting out those details. That allows the register to be brought up to date while giving sufficient time for general partners to submit the required information without being immediately liable to an offence.

Seema Malhotra: Clause 108 amends the Limited Partnerships Act 1907 by inserting provisions, as outlined by the Minister, that set out that general partners that are legal entities must specify the name or names of a proposed registered officer. That will make it possible to contact an individual person in general partners that are legal entities.

We have had some broad debate on the matter, but we have no objection to clause 108, which is welcome. Obviously, questions about transparency go further, but we welcome and support the clause.

Clause 109 relates to the transitional provisions. We understand the need for that, but the Minister will know my views on the six months.

Clause 108, as amended, ordered to stand part of the Bill.

Clause 109 ordered to stand part of the Bill.

Clause 110

REMOVAL OF OPTION TO AUTHENTICATE APPLICATION BY SIGNATURE

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Clause 110 removes the option to authenticate limited partnerships registration applications, as well as applications for designation as a private fund limited partnership, by signature. A signature, which is something readily forged, is no longer a necessary requirement as the Bill introduces other means of electronic authentication to ensure the correct delivery of documents to the registrar by authorised persons. Those means will be robust, secure and effective. Furthermore, other similar provisions that require general partners to deliver documents

[Kevin Hollinrake]

to the registrar, such as confirmation statements, do not require a signature. The clause therefore creates alignment across the Limited Partnerships Act.

Seema Malhotra: This clause amends the Limited Partnerships Act by removing the need for a signature when applying for registration of a limited partnership, as the Minister outlined along with the reasons for that. It aligns with new provisions set out in the Bill that impose obligations on general partners to deliver statements and other documents that do not require a signature. I will welcome assurances from the Minister that the Government have carried out some analysis of whether the removal of the option to authenticate an application by signature will have any impact on the effectiveness of the registrar in detecting or preventing economic crime. I will be grateful for that, for the background and for the possible impacts of the measure.

3.15 pm

Kevin Hollinrake: As I said, a wet signature is not the key to preventing inappropriate filing documents or inappropriate use of any kind of entity, be it a limited partnership or a company. We are in the modern age now, when many of us approve documents through electronic means. The key to ensuring that we have a register that has integrity and is correct is in the other measures, as we have set out many times.

Seema Malhotra: I understand what the Minister is saying about a wet signature depending on the circumstance, but a lot of documents can be signed electronically but still with a signature. I want to clarify, given the total removal of a wet signature, whether something can be signed electronically and in what circumstances. I know of a situation in which some signatures were put on documentation fraudulently, and that is now being uncovered as evidence of a fraud that took place.

Kevin Hollinrake: The clause does remove the option of a wet signature. It means that electronic means are fine, which already applies to companies. The key to uncovering an undoing, with a wet signature or not, is the other measures in the Bill: sharing of information, sanctions for false filing of documents, criminal sanctions and all those other measures that we discussed by which we can identify wrongdoing and take action against those who are culpable.

Question put and agreed to.

Clause 110 accordingly ordered to stand part of the Bill.

Clause 111

NOTIFICATION OF INFORMATION ABOUT PARTNERS

Amendments made: 27, in clause 111, page 92, line 34, at end insert—

", and

(b) confirming that the proposed registered officer meets the requirement in section 8K(1)(c)(i) or confirming that the proposed registered officer meets the requirement in section 8K(1)(c)(ii)."

This amendment would require a new general partner which is a legal entity to confirm whether its proposed registered officer is identify verified or exempt.

Amendment 28, in clause 111, page 93, line 17, at end insert—

", and

(ii) confirming that the individual meets the requirement in section 8K(1)(c)(i) or confirming that the individual meets the requirement in section 8K(1)(c)(ii)."—*(Kevin Hollinrake.)*

This amendment would require the proposed registered officer for a new general partner which is a legal entity to confirm whether they are identify verified or exempt.

Seema Malhotra: I beg to move amendment 162, in clause 111, page 95, leave out lines 22 to 24.

This amendment would remove the provision for it to be a defence for a person charged with an offence under this section to prove that they reasonably believed that notice had been given under proposed section 8Q of the Limited Partnerships Act 1907.

It is a pleasure to move the amendment, which I tabled with the hon. Member for Aberavon. The clause inserts new sections into the Limited Partnerships Act requiring general partners to notify the registrar of changes to a limited partnership's partners and information about partners, and changes occurring between an application and the limited partnership's registration. It also inserts offences for failing to notify information about partners. If the limited partnership does not notify Companies House of notifiable changes within 14 days of a change occurring, the limited partnership will have committed an offence. We have concerns about certain provisions in the clause, which is why we tabled the amendment.

As Professor Berry, a legal professor, set out in her written evidence submitted to the Committee:

"The Bill should not provide a defence if a general partner reasonably believed notice of their appointments had been given to the Registrar… General partners are personally liable for the acts of one another…and are jointly responsible for registering/filing notice of appointment. If they themselves fail to register/file, they should be required to wait to see a change on register. Reasonable belief would provide a loophole."

That is a significant point. If the Minister is unable to support this amendment or to commit to looking at this more closely and coming back to the Committee, I ask him to identify whether and where Professor Berry is wrong in her written evidence or in the concerns she raised. What assurances has he received, what questions has he asked of officials, and what advice has he taken that this defence does not merely create an unnecessary loophole through which regulations can continue to be abused?

In the interests of ensuring that the legislation is as robust as possible, I urge the Minister to accept this amendment. I look forward to his response.

Kevin Hollinrake: On the hon. Lady's point relating to amendment 35 regarding an address that might be removed from public view, a person could apply to the registrar because their address has been fraudulently registered as that of a general partner. Amendment 35 would mean that the person's application was not visible to the public, therefore protecting the applicant. That is the sort of circumstance in which the registrar would use that power.

Clause 111 makes it an offence for a person to act as a general partner of a limited partnership if the registrar has not been notified that the person has become a general partner with 14 days of their appointment. A general partner who manages the firm without that notification having been given on time but in the reasonable

belief that notification was given has a defence to prosecution. Amendment 162 would remove that defence, making the person strictly liable despite their reasonably held belief. General partners who deliberately fail to comply with the requirement to notify the registrar of their appointment should of course be punished for that offence. In the example that the hon. Lady raises, it may well be that if other general partners were guilty of not properly submitting information, they may be guilty of that offence too. The registrar would make a decision accordingly.

Notwithstanding that the Bill creates these offences, in our view the general partner should not be liable for the offence if they have acted on the basis of an objectively reasonable belief. Examples of circumstances in which a general partner might reasonably, but mistakenly, believe that notification of their appointment had been given might include where a general partner has asked its authorised corporate service provider to submit the application, which has been delayed in circumstances beyond the general partner's control and without their knowledge, or where there has been a technical hitch of which they were unaware—for example, if the information was being supplied electronically. I therefore ask that the amendment be withdrawn.

Seema Malhotra: I thank the Minister for his response. There might be a question about whether confirmation is received or one can go online and check. The Minister's response does not seem as robust as I was expecting or hoping in relation to this as a potential loophole.

Kevin Hollinrake: Sometimes in life, things happen and it may well be that they are not drawn to the attention of the general partner. The hon. Lady may think there should be a requirement on the general partner to check that the record has been properly made. It is a reasonableness defence. We expect the registrar to use her judgment in the exercise of any decision about whether an offence has been committed. We may need to agree to disagree on this particular point.

Seema Malhotra: I am not going to press the amendment to a vote, but I do think this is something we should come back to. If the risk is a serious one, we need to take it seriously. I will look to how we might progress this issue through the future stages of the Bill. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 29, in clause 111, page 95, line 45, at end insert—

"8V Regulations about change of general partner's addresses by registrar

(1) The Secretary of State may by regulations make provision authorising or requiring the registrar to—

(a) change a registered service address of a general partner in a limited partnership if satisfied that the address does not meet the requirements of section 1141(1) and (2) of the Companies Act 2006;

(b) change the address registered as the principal office of a general partner in a limited partnership if satisfied that the address is not in fact their principal office.

(2) In this section—

'address registered as the principal office', in relation to a general partner, means the address for the time being shown in the register as the address of the general partner's current principal office;

'registered service address', in relation to a general partner, means the address for the time being shown in the register as the general partner's current service address.

(3) The regulations may authorise or require the address to be changed on the registrar's own motion or on an application by another person.

(4) The regulations—

(a) may include provision corresponding or similar to any provision that may be included in regulations under section 1097B of the Companies Act 2006;

(b) must include—

(i) provision about appeals corresponding to the provision that must be included in regulations under section 1097B by virtue of subsections (7) and (8) of that section;

(ii) provision corresponding to subsection (9) of that section.

(5) Regulations under this section are subject to the affirmative resolution procedure."—*(Kevin Hollinrake.)*

This amendment confers a regulation-making power to enable the registrar to change the registered service address or principal office address of a general partner in a limited partnership.

Question proposed, That the clause, as amended, stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 112, 113 and 115 stand part.

Kevin Hollinrake: Under current legislation, general partners are required to notify the registrar of changes to partners or partner information. Clause 111 clearly sets out what information must be kept up to date on the register and places responsibility on general partners to notify the registrar of changes. They will commit an offence and be liable for a substantial fine in instances of non-compliance. Clause 111 goes further, stating that general partners who join limited partnerships after registration must notify the registrar within 14 working days of their appointment. Otherwise, they are prohibited from managing the business.

Clause 112 requires that general partners of limited partnerships registered prior to the commencement of this Bill provide the information set out in clause 111 within a six-month transition period. If the required information is not submitted within this period, the Registrar may reasonably conclude the limited partnership is dissolved and consider taking steps towards deregistering it. Clause 113 requires that new general partners of limited partnerships that were registered prior to the commencement of this Bill must inform the Registrar who their managing officers or named contacts are, or to confirm that they do not have any managing officers. Again, there is a six-month transition period during which this information must be provided.

Clause 115 creates a more robust offence for failing to provide requested information to the registrar, replacing the existing offence with a stiffer penalty. The current penalty of a £1 daily fine on each of the general partners, set back in 1907 when the original legislation was passed, is an insufficient deterrent. The new penalty may be applied if the general partners fail to inform the registrar of changes to a limited partnership's name, place of business, nature and character of business, or capital contributions by partners occurring after application but before registration.

Dame Margaret Hodge: This batch of clauses we are considering introduces a range of penalties. Does the Minister agree that the use of those penalties should be part of the annual report to Parliament?

Kevin Hollinrake: The right hon. Lady makes a fair point. As I said earlier, that is the kind of information I would like to see reported, so that Parliament and the public can see activities surrounding the legislation and the regulations clearly and ensure that Companies House is doing its job. There should be a proper conversation with members of the Committee, the wider House, officials and indeed Companies House to determine what the appropriate measures should be, but the key thing is not the measures, but the outcomes. I think the right hon. Lady, like me, would be very happy if no penalties were applied, as long as our system was 100% clean. That is what we are aiming for, and ideally it is what our measures will achieve; to me, that is the most important thing.

Question put and agreed to.

Clause 111, as amended, accordingly ordered to stand part of the Bill.

Clauses 112 and 113 ordered to stand part of the Bill.

Clause 114 disagreed to.

Clause 115

NOTIFICATION OF OTHER CHANGES

Amendment made: 31, in clause 115, page 99, line 1, leave out

"10A (inserted by section 114 of this Act)"

and insert "10".—*(Kevin Hollinrake.)*

This amendment is consequential on Amendment 30.

Clause 115, as amended, ordered to stand part of the Bill.

Clause 116

CONFIRMATION STATEMENTS

Kevin Hollinrake: I beg to move amendment 32, in clause 116, page 102, leave out lines 6 and 7.

This amendment means that new section 10E of the Limited Partnerships Act 1907 (confirmation statements) will apply to Scottish limited partnerships. As a consequence, Amendment 33 leaves out the power in clause 117 to amend existing provision about confirmation statements for Scottish limited partnerships.

The Chair: With this it will be convenient to discuss the following:

Government amendment 33.

Clauses 116 and 117 stand part.

Kevin Hollinrake: To aid understanding of the amendments, I will first explain clauses 116 and 117, which they amend. It is essential that the registrar and the public can be assured that the information held on the register concerning limited partnerships is accurate and up to date. Scottish limited partnerships already supply some of that information through a confirmation statement.

Clause 116 introduces a similar requirement for all limited partnerships, irrespective of the jurisdiction of their registration, to confirm that the information held about them on the register is current. It will also ensure that limited partnerships that are registered prior to commencement of the Bill provide a confirmation statement within six months. Limited partnerships that wish to update the registrar on a more frequent basis will be permitted to do so by notifying the registrar. Given that it is critical for the register to be up to date, general partners of limited partnerships that fail to deliver their confirmation statement will commit an offence. SLPs already submit confirmation statements to the registrar concerning the information held about them and their beneficial owners. That is a requirement under the Scottish Partnerships (Register of People with Significant Control) Regulations 2017.

3.30 pm

Clause 117 gives the Secretary of State the ability to make regulations that could change the 2017 regulations to bring them into alignment with the requirements for limited partnerships in other parts of the UK. However, amendments 32 and 33 further refine the legislative approach; they are consequential on the Government's decision to add a new power via amendment to make regulations governing qualifying Scottish partnerships, which the Committee will debate later. The Government anticipate that the new qualifying Scottish partnerships power will eventually be used to replace the 2017 regulations. As such, the power that was originally included in clause 117 is no longer needed, and amendment 33 therefore removes it.

Amendment 32 has the effect of ensuring that the core provisions about limited partnerships' confirmation statement obligations are all contained in the Limited Partnerships Act 1907. The new regulation-making power in new section 10E will be used to ensure that for Scottish limited partnerships, the confirmation statement requirements will additionally contain the reporting duties around persons of significant control that are currently contained in the 2017 regulations.

Seema Malhotra: I may not have indicated clearly that I wished to speak earlier, Mr Robertson, and that may be why I was not called to speak in the clause stand part debate for clauses 111 to 115. Nevertheless, my speeches were not going to be long ones, so we will move forward.

We are generally supportive of clauses 116 and 117. Clause 116 inserts new sections into the Limited Partnerships Act 1907 to assist in keeping the register up to date and places a requirement on limited partnerships to deliver statements to the registrar specifying what changes have been made to the partnerships that must be delivered to the registrar within 14 days of every review period, which is every year from the date the limited partnership was registered. We welcome the clause as a necessary provision to maintain the accuracy of the register in relation to limited partners.

Amendment 32 means that new section 10E of the Limited Partnerships Act, on confirmation statements, will apply to Scottish limited partnerships. As a consequence, amendment 33 leaves out the power in clause 117 to amend existing provision about confirmation statements for Scottish limited partnerships. We support clauses 116 and 117 and the Government amendments.

Amendment 32 agreed to.

Clause 116, as amended, ordered to stand part of the Bill.

Clause 117

CONFIRMATION STATEMENTS: SCOTTISH PARTNERSHIPS

Amendment made: 33, in clause 117, page 103, line 2, leave out from beginning to "(review" in line 17 and insert—

"In regulation 37 of the Scottish Partnerships (Register of People with Significant Control) Regulations 2017 (S.I. 2017/694)".—*(Kevin Hollinrake).*

See Member's explanatory statement for Amendment 32.

Clause 117, as amended, ordered to stand part of the Bill.

Clause 118

POWER FOR HMRC TO OBTAIN ACCOUNTS

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Limited partnerships are tax transparent, meaning that the individuals that are part of the limited partnership pay tax, rather than the limited partnership itself. In many cases, the partners of a limited partnership will pay tax in the UK, either because they are individuals who pay income tax or because they are corporate entities that pay corporation tax. Where the partners are UK corporate entities, they will also provide accounting information to the registrar. However, there are some limited partnerships whose partners do not pay tax in the UK or which are not legally required to provide accounting information to the UK Government.

The clause will give the Secretary of State the power to make regulations that require the general partners of UK-registered limited partnerships to provide accounting information to HMRC, closing the current gap. General partners who do not comply with that requirement will commit an offence and be liable to a fine or imprisonment.

Dame Margaret Hodge: That sounds like a good idea, but HMRC is absolutely hopeless at using such powers. Time and again with these limited partnerships where scandals have emerged, it appears companies have told HMRC that they are dormant. They have not submitted accounts, and HMRC never checks up on them. What steps will the Minister take to make sure that those useful powers are used?

Seema Malhotra: I thank my right hon. Friend for her remarks. The clause is extremely important for HMRC, providing clarity around accounts and accounting information and what tax should be due. It gives HMRC powers to request information and inserts a new section into the Limited Partnerships Act 1907 to create a new power for the Secretary of State to make regulations that require general partners to prepare accounts and, on request, make accounting information available to HMRC.

We very much support the measure. We want enhanced powers for HMRC to help with the detection and prevention of economic crime, and indeed the paying of rightful tax through better accounting information and submission of tax returns. I support the question that my right hon. Friend the Member for Barking asked about how we can ensure that HMRC uses the powers in a useful way.

Kevin Hollinrake: The right hon. Member for Barking went to a very tough school. She is not an easy person to please. Quite rightly, she is very demanding of more action in various areas; I support that, as she knows. HMRC is not directly answerable to BEIS. It reports to the Treasury, of course.

Liam Byrne: It is a law unto itself.

Kevin Hollinrake: The right hon. Gentleman knows that very well. I agree about enforcement, but I question the right hon. Lady's language a little bit. She implied that HMRC is useless in certain contexts. I have met Jim Harra and other people from HMRC and found them to be diligent, decent people seeking to do the right job. The vast majority of people in any agency—officials, or whoever—do not go to work to do a bad job, so I think the language she used is not helpful.

We do need to beef up enforcement in all sectors, whether we are talking about tax avoidance, evasion or economic crime, and I absolutely support that. We see time and again that the return on investment from the extra enforcement capability is more than worth while for the taxpayer. I appreciate the spirit of the right hon. Lady's remarks but not some of the language around them. Certainly, enforcement in all areas is something we need to look at carefully.

Question put and agreed to.

Clause 118 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. —*(Scott Mann.)*

3.44 pm

Adjourned till Thursday 17 November at half-past Eleven o'clock.

Written evidence reported to the House

ECCTB 11 City of London Police

ECCTB 13 The Payments Association

ECCTB 14 Letter from Tom Tugendhat MP, Security Minister, Home Office, dated 8 November 2022, re: further Government Amendments

ECCTB 15 Law Society of Scotland

ECCTB 16 UK Finance

ECCTB 17 Global Legal Entity Identifier Foundation (GLEIF)

ECCTB 18 United Services Institute for Defence and Security Studies (RUSI)

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Thirteenth Sitting

Thursday 17 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

Monday 21 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 17 November 2022

(Morning)

[Julie Elliott *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 119

Dissolution and winding up of limited partnerships

11.30 am

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move amendment 95, in clause 119, page 105, leave out lines 8 and 9 and insert—

"'(2B) A limited partnership is dissolved if—

(a) it ceases to have any general partners,

(b) it ceases to have any limited partners, or

(c) each general partner is either insolvent or disqualified under the directors disqualification legislation (see section 8J(3)), irrespective of whether they became insolvent or disqualified before or after this subsection comes into force.';"

This amendment would mean that limited partnerships dissolve if all of the general partners are either insolvent or disqualified, rather than only dissolving if they are all insolvent. Together with amendment 96 it would mean that limited partnerships would not dissolve if all of the limited partners are insolvent.

The Chair: With this it will be convenient to discuss the following:

Government amendments 96 and 97.

Clause 119 stand part.

Clause 120 stand part.

Government new clause 30—*Duty to notify registrar of dissolution*.

Government new clause 31—*Winding up limited partnerships on grounds of public interest.*

Government new clause 32—*Winding up dissolved limited partnerships.*

Kevin Hollinrake: It is a pleasure to speak with you in the Chair, Ms Elliott.

This group of amendments and new clauses make provision about the circumstances in which limited partner ships dissolve, prescribe the winding-up responsibilities of the partners, and establish powers of the court to wind up limited partnerships. The lead amendment provides that a limited partnership is dissolved: if it ceases to have any general partners; if it ceases to have any limited partners; or where all general partners are either insolvent or disqualified under the directors disqualification legislation.

Government new clause 30 and amendments 96 and 97 concern the duty to notify the registrar of dissolution. Amendment 96 provides for who winds up a dissolved limited partnership. If there are general partners at the time it dissolves, the responsibility falls to them. If there are no general partners, the limited partners are obliged to take all reasonable steps to ensure that the firm is wound up.

The effect of new clause 30 is that when a limited partnership dissolves and has at least one general partner, they must notify the registrar of the dissolution. When there are no longer any general partners at the time of dissolution, the limited partners will be required to notify the registrar. Amendment 97 removes subsection (3) from the clause as the penalty for failing to notify the registrar of dissolution is covered by new clause 30. The rationale for the provisions is that the registrar needs to be informed of a limited partnership's dissolution so that she can reflect that in the index of limited partnerships' names which she maintains.

Government new clause 31 concerns winding up limited partnerships in the public interest. This new clause will allow the Secretary of State—in effect, the Insolvency Service—to petition the court to wind up any limited partnership in the United Kingdom, whether solvent or insolvent, and for the court to order the winding up of a limited partnership if it considers it just and equitable to do so. The Secretary of State will be able to receive information from bodies across Government, such as a law enforcement agencies or investigatory bodies, or indeed the registrar under her new information-sharing power. That will help the Secretary of State decide whether to petition the court.

Government new clause 32 allows the Secretary of State or any other person with sufficient interest to apply to the court for orders in relation to the winding up of a limited partnership. The court may make such orders if it appears to the court that a dissolved limited partnership has not been wound up properly or at all. That will ensure that dissolved limited partnerships are properly wound up in a timely manner.

The clause amends and clarifies the existing law around the winding up of limited partnerships. The changes work together with the amendments in this group to make the register more transparent. Specifically, the remaining changes in the clause, which we have not yet debated, concern the application of the actions of limited partners. They provide that a limited partnership shall not be dissolved by the bankruptcy of a partner, and remove the current provision in the Limited Partnerships Act 1907 relating to the winding up of limited partnerships.

Turning to clause 120, the Partnership Act 1890 provides that a court may dissolve a partnership when a partner is found to be suffering from "lunacy or unsound mind". Clause 120 updates that provision with references to modern definitions of "mental disorder". The clause also modernises the Limited Partnership Act 1907 by removing reference to the "lunacy" of a limited partner as being grounds for the dissolution of the partnership.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): We largely support the Government amendments, but I will ask a few questions and speak to clauses 119 and 120 stand part. As the Minister outlined, clause 119 concerns the dissolution and winding up of limited partnerships. It sets out that:

"A limited partnership is dissolved if it ceases to have a general partner or ceases to have a limited partner."

The clause also sets out what happens if a limited partnership is dissolved at a time when the firm has at least one general partner. As the Minister said, it requires the general partner to notify the registrar before they wind up the limited partnership, and it would be an offence for the partners to fail to notify the registrar of the firm's dissolution. We welcome the new provisions, but I would also welcome the Minister's thoughts on some comments made by Professor Berry in her evidence. She stated that:

"The Bill inappropriately amends partnership law to prevent automatic dissolution on the bankruptcy of a general partner in an LP… Personal liability is no guarantee of good behaviour if the partner is already insolvent, and indeed the same restriction remains on general partners of a general partnership."

If I have understood correctly, amendment 95 would mean that a limited partnership is dissolved if all the general partners are either insolvent or disqualified, rather than if they are all insolvent. Taken with amendment 96, it would mean that limited partnerships would not dissolve if all the limited partners are insolvent. Amendment 96 would mean that any insolvent general partners who are not disqualified must wind up a dissolved limited partnership or take "reasonable steps" to ensure that it is wound up. If there are no general partners, the insolvent limited partners must take reasonable steps to ensure that it is wound up. We support amendments 95 and 96.

I will speak briefly to Government new clause 30 and make a few comments about amendment 97. New clause 30 would introduce a new duty on the general partners of limited partnerships to notify the registrar in the event of a dissolution. If the general partners fail to comply,

"an offence is committed by each general partner who is in default",

but

"where the general partner or limited partner is a legal entity, it does not commit an offence as a general partner or limited partner in default unless one of its managing officers is in default."

New clause 30 also states:

"Where any such offence is committed by a general partner or limited partner that is a legal entity, or any such offence is…committed by a managing officer that is a legal entity, any managing officer of the legal entity"—

are you still following this, Ms Elliott?—

"who is in default also commits the offence if—

(a) the managing officer is an individual, or

(b) the managing officer is a legal entity and one of its managing officers is in default."

Some of this speaks to the complexity of some of these structures, which is why it is important to be moving forward in this way. Although we welcome new clause 30, will the Minister expand on the regulations in relation to general partners who are legal entities? Could there be a situation in which none of the criteria needed for an offence to be committed is met when the general partner is a legal entity? Is there still a loophole?

We welcome new clause 31, which would allow a court to order the winding up of a limited partnership on a petition by the Secretary of State in the public interest. New clause 32

"would mean that if a limited partnership has not been wound up as is required by section 6(3A) or 6(3B), the court can make various orders on an application by the Secretary of State or a person with sufficient interest"

to order a winding up of the limited partnership. We believe the measures strengthen the legislation, so can the Minister comment on those two points?

Clause 120 amends the Partnership Act, specifying the provision for the dissolution of a partnership on the grounds of a partner's lunacy. It is right that we update those references to "mental disorder" within the meaning of modern legislation. However, in her written evidence to the Committee, Professor Berry makes an important point that the clause may give the impression that it

"appears to mean that mental health disorder of a limited partner is now a ground for dissolution (whereas previously it was not), which cannot be intended."

Can the Minister respond on that point as well, just to make sure that that is not a consequence in the way by Professor Berry suggested?

Kevin Hollinrake: It might be helpful if the hon. Lady shared with me Professor Berry's written comments, so I can look at it in more detail. Clearly, if a general partner is a legal entity, there is a named individual behind that. We have discussed that at length before. With that information, I will write back to her to clarify those points.

Amendment 95 agreed to.

Amendments made: 96, in clause 119, page 105, line 11, leave out paragraphs (e) to (g) and insert—

'(e) for subsections (3A) and (3B) substitute—

"(3A) If a limited partnership is dissolved at a time when the partnership has at least one general partner who is—

(a) solvent, and

(b) not disqualified under the directors disqualification legislation, the general partners at that time who are solvent and are not so disqualified must either wind up the partnership's affairs or take all reasonable steps to ensure that its affairs are wound up by a person who is not a partner at that time.

(3B) If a limited partnership is dissolved at a time when the partnership does not have a general partner who is—

(a) solvent, and

(b) not disqualified under the directors disqualification legislation, the limited partners at that time who are solvent must take all reasonable steps to ensure that the partnership's affairs are wound up by a person who is not a limited partner at that time.

(3BA) For enforcement of the duties under subsections (3A) and (3B) see section 25B."

(f) omit subsection (3C).'

This amendment means that any solvent general partners who are not disqualified must wind up a dissolved limited partnership or take reasonable steps to ensure it is wound up. If there are no such general partners, the solvent limited partners must take reasonable steps to ensure it is wound up.

Amendment 97 in clause 119, page 105, line 36, leave out subsection (3).—*(Kevin Hollinrake).*

This amendment is consequential on NC30.

Clause 119, as amended, ordered to stand part of the Bill.

Clause 120 ordered to stand part of the Bill.

Clause 121

THE REGISTER OF LIMITED PARTNERSHIPS

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: This is a simple clause that removes outdated requirements for the registrar to file statements made by limited partnerships and issue certificates of registration for the statements filed. It brings those into line with the more modern approach for the companies register. The clause introduces a definition of the register of limited partnerships, making clear that it is part of the records the registrar holds under section 1080 of the Companies Act 2006.

Seema Malhotra: As the Minister outlined, the clause increases clarity over the inspection of the register, and we support it.

Question put and agreed to.

Clause 121 accordingly ordered to stand part of the Bill.

Clause 122

MATERIAL NOT AVAILABLE FOR PUBLIC INSPECTION

Kevin Hollinrake: I beg to move amendment 34, in clause 122, page 107, line 34, leave out "available for public inspection" and insert

"the following material available for public inspection, so far as it forms part of the register of limited partnerships".

This amendment spells out that the relevant material is only to be made unavailable for public inspection if it forms part of the register of limited partnerships.

The Chair: With this it will be convenient to discuss the following:

Government amendment 38.

Clauses 122 and 123 stand part.

Kevin Hollinrake: Clause 122 will prevent personal or confidential information, such as a partner's residential address and date of birth or a limited partnership's email address, from being disclosed to the public. That aligns the position of limited partnerships with that of companies as set out in the part 1 clauses that we have already debated.

11.45 am

Government amendment 34 inserts new wording into the clause to make it explicit that the material being referred to should not be made publicly available as material that forms part of the register of limited partnerships. Government amendment 38 amends the clause to make statements delivered to the registrar that relate to an individual being an authorised corporate service provider or an employee thereof unavailable for public inspection.

Clause 123 makes it possible for the registrar to cease making information concerning dissolved limited partnerships available to the public 20 years after the dissolution takes place. It also allows the registrar to send records that are held on dissolved limited partnerships to the Public Record Office two years after the dissolution takes place.

Seema Malhotra: Clause 122 inserts a new section into the Limited Partnerships Act, as the Minister outlined, to set out provisions for certain information that the registrar must not make available for public inspection. The Minister outlined that that could include dates of birth, residential information, and I think also email addresses, for the limited partnership.

We understand the need for the measure, and the Committee has debated previously the need to hold back information for personal security or privacy reasons, but information sharing might sometimes be necessary. We have talked about those who need access to information because they are undergoing insolvency or other proceedings. Is there a mechanism by which the Government could enable information that would ordinarily be protected to be shared with third parties where it is deemed necessary and does not threaten the integrity of the register or the privacy of limited partnerships? This does get confusing, so we are probing where the registrar may be able to share information, if there is a reason to do so in terms of preventing economic crime.

Amendment 34 spells out that the relevant material is to be made unavailable for public inspection only if it forms part of the register of limited partnerships. Amendment 38 will make statements required to be made when documents are delivered unavailable for public inspection. Such statements relate either to identity verification or to an individual being an authorised corporate service provider or employee of an authorised corporate service provider.

I want to ask the Minister for more detail about why that is protected information. Have the Government considered whether it would be helpful and transparent for third parties dealing with a limited partnership to know whether an individual involved in its registration is related to an ACSP? That may be particularly useful given the evidence that has already been recounted to the Committee on the increased risk of economic crime when an ACSP is involved in the registration of the company or limited partnership. This is about transparency in relation to ACSPs.

Kevin Hollinrake: As the hon. Lady sets out, the reason for some information not being made public is security—to prevent ID theft, for example. Throughout the Bill, we are giving the registrar powers to share information wherever necessary, particularly if it relates to tackling economic crime. Nothing in the Bill would prevent any information, public or private, from being shared with law enforcement agencies. That is quite clear; the Bill facilitates that.

On authorised corporate service providers, the measure relates to statements and not things such as ID verification. This is where it may be considered that a statement is not suitable for sharing with the general public, which we have discussed in previous debates.

Amendment 34 agreed to.

Amendments made: 35, in clause 122, page 107, line 34, at end insert—

"(za) any application or other document delivered to the registrar under section 8PA, 8G or 8V (changes of addresses by registrar) other than an order or direction of the court;".

This amendment would mean the documents mentioned in it are unavailable for public inspection.

Amendment 36, in clause 122, page 107, leave out lines 35 to 37.

This amendment is consequential on Amendment 30.

Amendment 37, in clause 122, page 108, line 4, at end insert—

"(ba) so much of any statement delivered to the registrar as is required to contain the information mentioned in any of the following provisions (which relate to identity verification)—

section 8A(1C)(b) or (1F)(c)(ii);

section 8L(3)(a)(ii) or (b)(ii);

section 8Q(4)(b) or (7)(c)(ii);".

This amendment would make statements relating to identity verification of registered officers unavailable for public inspection.

Amendment 38, in clause 122, page 108, line 7, at end insert—

"(ca) any statement delivered to the registrar by virtue of section 1067A(3) or (4) of the Companies Act 2006 (delivery of documents: identity verification and authorised corporate service providers);".

This amendment would make statements required to be made when documents are delivered unavailable for public inspection. The statements either relate to identity verification or to an individual being an authorised corporate service provider or employee of an authorised corporate service provider.

Amendment 39, in clause 122, page 109, line 4, leave out "and".

This amendment is consequential on Amendment 40.

Amendment 40, in clause 122, page 109, line 7, at end insert—

"(c) section 22(5) of the Economic Crime (Transparency and Enforcement) Act 2022 (extent of obligation to retain material not available for public inspection).".—*(Kevin Hollinrake.)*

This amendment is consequential on NC17.

Clause 122, as amended, ordered to stand part of the Bill.

Clause 123 ordered to stand part of the Bill.

Clause 124

Disclosure of information about partners

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: This is another simple clause, which ensures that personal information is used only for its intended purpose and prevents personal information from being exposed to abuse. The clause prevents the registrar from disclosing personal information about partners unless, in a few limited circumstances, it is necessary to do so. In all cases, information will remain available to law enforcement.

Seema Malhotra: We support the clause. As the Minister said, it restricts the registrar from disclosing certain information unless specific conditions apply. As we have rehearsed in other debates, we acknowledge the importance of ensuring that law-abiding individuals who have provided personal information are adequately protected. I am grateful for the Minister's confirmation and clarity that that information would still be available to law enforcement officers.

I am less clear about what is proactively and reactively available, in the sense of whether it is for the registrar to make the information available or for law enforcement to request it. Perhaps the Minister could just confirm that it can work both ways.

Kevin Hollinrake: Yes, it can.

Question put and agreed to.

Clause 124 accordingly ordered to stand part of the Bill.

Clause 125

Registrar's power to confirm dissolution of limited partnership

Seema Malhotra: I beg to move amendment 163, in clause 125, page 112, line 35, leave out "power" and insert "duty".

This amendment is consequential on Amendment 164.

The Chair: With this it will be convenient to discuss the following:

Amendment 164, in clause 125, page 112, line 37, leave out "may" and insert "must".

This amendment would turn the registrar's power to confirm dissolution of limited partnerships if it has reasonable cause to believe the limited partnership has been dissolved into a duty on the registrar.

Amendment 165, in clause 125, page 113, line 15, at end insert—

"and,

(d) be published on the registrar's website and remain published on the registrar's website for a minimum of 20 years from the date on which it was first published."

This amendment would require the limited partnership dissolution notice to be published on the registrar's website and remain published for a minimum of 20 years.

Seema Malhotra: Clause 125 sets out a process for the registrar to confirm the dissolution of a limited partnership that the registrar has reasonable cause to believe has been dissolved. The registrar will be required to publish a notice stating that they believe the limited partnership is dissolved and asking for anyone to come forward with information to the contrary. While we support the clause, to enable the register to be kept up to date and for information on it to be as accurate as possible, we believe that certain elements of it could and should go further to make things more robust, and we have tabled amendments 163 to 165 to address that.

I will discuss amendments 163 and 164 together. Amendment 164 would amend the provisions setting out the registrar's power to confirm the dissolution of a limited partnership by replacing "may" with "must", such that the registrar must publish a dissolution notice and begin the dissolution process should they have reasonable cause to believe that a limited partnership has been dissolved. In short, the amendment would turn the registrar's power to confirm the dissolution of a limited partnership, if they have reasonable cause to believe that it has been dissolved, from a power into a duty.

[Seema Malhotra]

Amendment 163 is consequential on amendment 164. The explanatory notes to the Bill describe that

"there are currently thousands of limited partnerships on the register which the Registrar either knows or suspects are inactive."

The registrar's power to confirm the dissolution of these partnerships should not be optional, hence our amendments would make it a duty.

Amendment 165 would introduce a requirement that the limited partnership dissolution notice published in the *Gazette* must also be published on the registrar's website and remain published for a minimum of 20 years. This would ensure that the notice of the partnership's dissolution is transparently and clearly available to third parties who would benefit from such information. As Professor Berry set out in her written evidence:

"All dissolution/deregistration information should be shown on the Register and retained for at least 20 years. This is essential…so that third parties can fully examine the recent history of a particular participant or investigate suspicious networks."

It is an important principle that innocent third parties should be able to access all information about former participants following the dissolution of a limited partnership. I would be grateful for the Minister's comments.

Gavin Newlands (Paisley and Renfrewshire North) (SNP): It is a pleasure finally to speak in the Committee. It would be an exaggeration to call me the second chair of the SNP; I am more the office junior to my hon. Friend the Member for Glasgow Central, given her knowledge on these matters. I do not intend to repeat much of what was said by the hon. Member for Feltham and Heston, whose amendments I support.

I will make a wider point about power versus duty. In pretty much every Bill Committee I have sat on—perhaps it is something to do with the Bills—amendments have been tabled that seek to replace powers with duties. We all know that there are so many Government agencies and bodies that have lots of powers that are rarely, if ever, used. I have yet to hear a robust response from a Minister as to why we should not replace a power with a duty. Perhaps we will hear one—it may be the first time ever—when the Minister gets to his feet, but I highly doubt it.

In general, the Bill is good, and it enables Companies House and the Secretary of State to do a lot of vital and long overdue work. Sadly, it does not compel them to do enough. That is my issue, and that is why I support the amendments.

12 noon

Kevin Hollinrake: The quick answer to the hon. Gentleman's comment is that we believe in people using their judgment. The registrar, who we believe to be a competent person, should use her judgment in these cases. It may not always be proportionate in the circumstances to issue a notice of dissolution. However, I am grateful for the amendments.

The Bill allows the registrar to remove a limited partnership from the index of names without going through the dissolution notice process if she is absolutely certain that the partnership was dissolved, resulting in its deregistration. Amendments 163 and 164 would compel the registrar to publish a notice warning of dissolution, and then a notice confirming dissolution within two months if she reasonably believes that a limited partnership is dissolved. The registrar, despite being certain that the limited partnership was dissolved, would be forced to go through the warning notice and representation-seeking process to confirm that. It would unnecessarily take longer for the registrar to deregister a limited partnership that she was certain had been dissolved.

Furthermore, the process of issuing a dissolution notice attracts a cost. Were the registrar to issue a warning notice, wait for representations and then issue a dissolution notice each and every time she had reasonable cause to believe that a limited partnership had dissolved, the cost may be significant. The registrar should therefore be given flexibility to use her judgment to determine whether to begin the dissolution notice process on a case-by-case basis.

I support the intentions of the hon. Members for Feltham and Heston and for Aberavon, through amendment 165, to increase transparency and bring clarity to the register concerning limited partnerships that are dissolved. The Bill already requires the registrar to issue the notice of dissolution in the *Gazette*, which is a matter of public record and can be accessed by the public indefinitely. That information will also be added to a limited partnership's record, with the information being made available to the public for 20 years, either on the register or through the public records office. The information would therefore already be in the public domain. However, I would like to explore with Companies House the feasibility and costs associated with also publishing that information on its website, as the hon. Members have suggested. I will return to them on that point.

Seema Malhotra: I thank the Minister for his comments, which I welcome, and I thank SNP colleagues for their support.

I will reflect on the Minister's comments in relation to amendments 163 and 164. Obviously, we want to look at proportionality of resources alongside the management of risk and the effectiveness of provisions. I will not press the amendments to a Division today.

In relation to the Minister's comments on amendment 165, I welcome his taking our suggestion away to look at it, and I look forward to hearing from him in due course. Perhaps he could produce a short note to confirm how the Government might want to move forward with our suggestion. I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 126 and 127 stand part.

Kevin Hollinrake: Clause 125 will allow the registrar to confirm that a limited partnership is dissolved where she has reasonable cause to believe that it is, and to remove the name of the dissolved firm from the index of limited partnerships that she maintains. It is important that limited partnerships and interested parties are given sufficient notice of the potential dissolution, allowing

them to make representations to the registrar if they object. The registrar will therefore be required to publish a notice of her intention to dissolve the limited partnership in the *Gazette* and to notify the limited partnership of her intention. After a period of not less than two months, the registrar may publish a second notice in the *Gazette*, which will effectively dissolve the limited partnership, if it is not dissolved already, and let it be deregistered.

Within a period of six years from dissolution, a dissolved limited partnership's former general partner may apply to the registrar for the partnership to be revived if they bring the limited partnership's information up to date and pay any fines or penalties that are owed. The Secretary of State, any partner or any person with an interest in the limited partnership may also apply to the court for the limited partnership to be revived. We expect that confirmation of dissolution power to dramatically reduce the number of limited partnerships that are currently registered. A more accurate and up-to-date register will give clarity to the public and law enforcement about the number of active limited partnerships.

Clause 126 will, within a six-month period following commencement of the Act, allow the registrar to publish a notice in the *Gazette* that limited partnerships are dissolved without having to follow the warning notice and representation-gathering process. This will immediately dissolve those limited partnerships that failed to comply in the six-month transitional period with the requirement to supply the registrar with information required under the Bill.

Clause 127 allows limited partnerships that are not dissolved to deregister and, should the partners want to, continue as general partnerships without the need to wind up the affairs of the firm. All partners in the limited partnership must agree to the deregistration process. That avoids both the potentially protracted process of dissolving and winding up the limited partnership before it becomes a different entity, and the associated administrative burden that would fall upon the registrar.

Seema Malhotra: We discussed clause 125 previously, but it is perhaps helpful to summarise it. Labour supports the clause. It would insert proposed new sections 18 to 24 into the Limited Partnerships Act 1907. They would give the registrar the power to publish a warning notice if she has reasonable cause to believe that a limited partnership has been dissolved. In the absence of any information to the contrary being received within two months, the registrar would have the power to publish a dissolution notice, and the partnership would be dissolved. The proposed new sections also provide for a process for applications to the registrar or court to revive a limited partnership if certain conditions are met.

Clause 126 is a transitional provision. It provides that if the registrar exercises the powers in clause 125 during the six-month period—is it during the six-month period or after it?—after the Bill comes into force, she can publish a notice stating that she has reasonable cause to believe that a limited partnership has been dissolved without having to comply with the warning notice or notification provisions. Will the Minister clarify whether the power applies within the six months or after the six months?

Clause 127 inserts a proposed new section into the Limited Partnerships Act to allow limited partnerships that want to cease to exist to apply to the registrar to be removed if all the partners agree to deregister the partnership. Will the Minister assure the Committee that the clause will not enable limited partnerships involved in wrongdoing and economic crime to voluntarily dissolve before any scrutiny or investigation into them? Will there be safeguards against that occurring?

Kevin Hollinrake: On the hon. Lady's point of clarification, it is after the six-month period.

On the hon. Lady's latter point, about the dissolution of a company, will she clarify what question she wants me to address?

Seema Malhotra: I am very happy to. Clause 127 enables limited partnerships to apply to be deregistered if all partners agree. My question relates to the potential opportunity that that provides a partnership where there has been wrongdoing or economic crime and the deregistration is an attempt to avoid scrutiny or investigation. Are there any safeguards around that? Will checks take place if partners apply to voluntarily deregister under the provisions of the clause?

Kevin Hollinrake: That is a fair point. Off the top of my head, I would say that that might be a red flag and the registrar would look in more detail into the parties related to the deregistration, but I will write to the hon. Lady to provide further detail on that point.

Question put and agreed to.

Clause 125 accordingly ordered to stand part of the Bill.

Clauses 126 and 127 ordered to stand part of the Bill.

Clause 128

Delivery of documents relating to limited partnerships

Seema Malhotra: I beg to move amendment 166, in clause 128, page 117, leave out lines 7 to 23 and insert—

"(1) An individual may not deliver a document under a provision listed in subsection (4) to the registrar on their own behalf unless—

(a) the individual's identity is verified (see section 1110A which, for the purposes of this section, will apply to limited partnerships as it applies to companies), or

(b) the individual falls within any exemption that may be specified in regulations made by the Secretary of State for the purposes of this paragraph.

(2) An individual may not deliver documents to the registrar on behalf of another person unless—

(a) the individual's identity is verified (see section 1110A),

(b) the individual is an authorised corporate service provider,

(c) the individual is an employee of an authorised corporate service provider and is acting in the course of their employment, or

(d) the individual falls within any exemption that may be specified in regulations made by the Secretary of State for the purposes of this paragraph.

(3) A document delivered to the registrar by an individual on their own behalf must be accompanied by—

(a) a statement that the individual's identity is verified, or

(b) a statement that the individual falls within an exemption specified in regulations under subsection (1)(b).

(3A) A document delivered to the registrar by an individual on behalf of another person must be accompanied by—

(a) a statement that the individual's identity is verified and that they have the person's authority to deliver the document,

(b) a statement that the individual is an authorised corporate service provider and that they have the person's authority to deliver the document,

(c) a statement that the individual is an employee of an authorized corporate service provider and is acting in the course of their employment and that the authorised corporate service provider has the person's authority to deliver the document, or

(d) a statement that the individual falls within an exemption specified in regulations under subsection (2)(d) and that they have the person's authority to deliver the document.

(3B) Regulations under subsection (1)(b) or (2)(d) are subject to affirmative resolution procedure."

It is a pleasure to move the amendment tabled by my right hon. Friend the Member for Barking. The clause sets out that certain documents relating to a limited partnership can be delivered to the registrar only by an authorised corporate service provider. The documents include, but are not limited to, applications for registration, changes of address, changes relating to partners, and confirmation of statements.

We are concerned by the provisions set out in the clause, particularly those on allowing documents relating to limited partnerships to be submitted only by ACSPs, given the concerns that have been raised about economic crime committed through ACSPs. As a result, we support amendment 166, which would expand beyond just ACSPs the range of people who can deliver documents relating to limited partnerships. It would remove the provision in the clause that mandates that only ACSPs can deliver such documents and replace it with new provisions.

12.15 pm

The amendment speaks for itself. In sum, rather than prohibiting the use of other individuals in relation to limited partnerships, the amendment provides a common-sense compromise by allowing individuals who have had their identity verified to submit documents relating to limited partnerships on their own behalf. Without the amendment, the Bill will enable company officers to submit identify-verified documents on their own behalf, but not the officers and partners of limited partnerships. Will the Minister expand on the Government's reasoning for not allowing limited partnerships the same registration mechanisms as companies?

I do not need to remind the Minister of the potential wrongdoing or risks that have been identified in relation to the use of ACSPs for registering purposes. I refer him to Nick Van Benschoten of UK Finance, who, when giving evidence to the Committee, stated:

"we need a much more cautious approach in relation to the reliability of that service."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 13, Q14.]

Surely, it makes sense to consider inserting provisions into the Bill to ensure that limited partnerships can, like companies, have documents registered by their own officers rather than only by ACSPs. I will be grateful for the Minister's response.

Kevin Hollinrake: I am happy to provide that clarification. I thank the right hon. Member for Barking, who is not present today, for her amendment. The measures in part 2 are intended to tackle the role of limited partnerships in global money laundering schemes. Clause 128 ensures that key documents pertaining to limited partnerships can be submitted only by an authorised corporate service provider. The key is that those providers must be registered with the registrar and supervised for anti-money laundering purposes. Doing so will give the registrar a clear audit trail of who has been setting up and providing corporate services to limited partnerships, and enable that audit trail to be shared with AML supervisors.

The hon. Member for Feltham and Heston is absolutely right to say that there are question marks over corporate service providers. We know that, and we recognise those comments from UK Finance. That is why the Treasury is undertaking the consultation on how we can improve the supervision of corporate service providers, which certainly needs to be done. As I have said many times, corporate service providers can be major accountants that are bona fide organisations; the hon. Lady refers to the minority of corporate service providers that we do need to better regulate and supervise. That body of work is currently being undertaken.

We think the approach of requiring ACSPs to provide the documentation, which is more restrictive than the filing options for limited companies, is appropriate given both the relatively low numbers of limited partnerships created each year and the fact that they are used chiefly by the investment sector, which routinely uses agents. The amendment would require individuals to submit documents if their identity was verified, but it would remove the requirement for individuals to be relevant persons under the money laundering regulations. I do not think that would be the right approach. It would mean that they would not, for example, have the obligation to conduct due diligence checks on those on whose behalf they were acting or to adhere to record-keeping requirements, and they would not be supervised for anti-money laundering purposes.

Clause 128 will serve not just to better support supervision but as a prompt for better supervision, so I invite the hon. Member for Feltham and Heston to withdraw the amendment.

Seema Malhotra: I thank the Minister for his remarks. This is an important debate. I am not sure that we have exhausted it today, and we may not, but it strikes me that the Minister's main argument—that the volume of registrations might be less—is not the strongest. I wish to look further at what he said about who and what would fall under anti-money laundering regulations and whether the amendment could reduce some of the scrutiny and controls in that respect. I do not believe that would necessarily be the case if we were effectively allowing individuals to submit documents on their own behalf if they wished to do so.

It would be worth our coming back to this issue. I do not intend to press the amendment to a vote, and I am sure that my right hon. Friend the Member for Barking will also want to reflect on the Minister's comments, but we remain concerned about the delivery of documents relating to limited partnerships. I recognise what the Minister said, but I also appreciate—he will know this from his work on these issues in the past—the concerns about trust and company service providers and ACSPs. If we can make the provision a little stronger and a little more in line with the way the process works for companies,

and if we push the argument just a little further and there is not as strong a downside as the Minister believes, it may be worth coming back to this issue. I will reflect on it with my right hon. Friend. On that basis, I intend to withdraw the amendment.

Kevin Hollinrake: Just to clarify, my argument was not that smaller numbers of limited partnerships are being set up and therefore the risk is less. It is quite the opposite: we know that limited partnerships have been involved in economic crime so we think the risk is greater. That is why we want to put in an extra layer of scrutiny. We believe that introducing somebody who is supervised under the AML regulations provides that extra level of scrutiny and an extra level of check and balance in the process. That is our basic argument.

Seema Malhotra: I beg to ask leave to withdraw the amendment.

Amendment, by leave, withdrawn.

Amendment made: 41, in clause 128, page 117, line 39, leave out from beginning to end of line 16 on page 118.
—(Kevin Hollinrake.)

This amendment is consequential on NC9.

Question proposed, That the clause, as amended, stand part of the Bill.

Kevin Hollinrake: Clause 128 is another simple clause. It ensures that key documents pertaining to limited partnerships can be submitted only by an authorised corporate service provider. I have already set out why clause 128 is so important in making limited partnerships and their partners subject to a greater level of scrutiny than they are currently exposed to.

Seema Malhotra: As the Minister has outlined, clause 128 inserts into the Limited Partnerships Act proposed new sections 26 and 27, which require applications for registration and documentation of changes to be submitted by an ACSP. We have had a useful debate to which I am sure we will return.

Proposed new section 27 gives the Secretary of State the power to disapply section 26 if that is necessary
"in the interests of national security"
or
"for the purposes of preventing or detecting serious crime".
We did not go into this exemption in much detail and the Minister may have some further comments on it. The ideas of national security and preventing or detecting serious crime are quite broad; perhaps the Minister could comment on some of the circumstances in which he sees the power being used by the Secretary of State and whether this might be an example of where the use of the power and the number of times it is used should be reported through some mechanism to Parliament.

The Chair: I remind everybody that we are discussing clause 128.

Seema Malhotra: Yes, that is in clause 128.

Kevin Hollinrake: We have debated the same issue at length on a number of occasions. We feel they are proportionate powers to hand the Secretary of State and will be used very rarely.

Question put and agreed to.

Clause 128, as amended, accordingly ordered to stand part of the Bill.

Clause 129

General false statement offences

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Clause 129 simply introduces two false statement offences—basic and aggravated—into the Limited Partnerships Act. The offences mirror those in the Companies Act and the Economic Crime (Transparency and Enforcement) Act 2022. The Committee has supported this approach when debating other clauses.

Seema Malhotra: I thank the Minister for his remarks. I just want to clarify for the record that clause 128 was confusing, Ms Elliott, because I was talking about proposed new sections 26 and 27, which are in clause 128. I hope that has cleared that up.

Clause 129 relates to general false statement offences. As the Minister said, the clause introduces two levels of offences relating to the submission of a false, misleading or deceptive document or statement to the registrar. That is absolutely right. Proposed new section 28 defines offences where such submissions are made without reasonable excuse and proposed new section 29 defines aggravated offences where such submissions are made knowingly. In each case, where an offence is committed by a legal entity, every managing officer of the entity will also be deemed to have committed the offence. We welcome the new offences and support the clause.

Question put and agreed to.

Clause 129 accordingly ordered to stand part of the Bill.

Clause 130

Service on a limited partnership

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Clause 130 specifies how documents may be served at the registered office for the purposes of the Limited Partnerships Act. The clause is necessary to ensure that the registrar or another body can serve documents to a limited partnership's registered address with assurances that they will be received. It is in line with the principles we discussed in part 1 of the Bill.

Seema Malhotra: I thank the Minister for his comments. We support this straightforward clause. It inserts a new section in the Limited Partnerships Act to enable documents to be served on the limited partnership by leaving them at or sending them to their registered office. We welcome and support the clause.

Question put and agreed to.

Clause 130 accordingly ordered to stand part of the Bill.

Clause 131

APPLICATION OF COMPANY LAW

Kevin Hollinrake: I beg to move amendment 42, in clause 131, page 120, line 18, leave out

"any Act, whenever passed or made"

and insert

"either of the following, whenever passed or made—

(a) an Act;

(b) Northern Ireland legislation."

This would allow for consequential amendments to be made to Northern Ireland legislation if the power inserted by clause 131 of the Bill is exercised to apply company law to limited partnerships, for example amendments to the Company Directors Disqualification (Northern Ireland) Order 2002.

The Chair: With this it will be convenient to discuss the following:

Clauses 131 to 133 stand part.

New clause 48—*Application of Part XIV of the Companies Act 1985 to limited partnerships*—

"In Part XIV of the Companies Act 1985, references to a company shall include references to a limited partnership."

This new clause would extend the investigations regime under Part XIV of the Companies Act 1985 to include Limited Partnerships.

Kevin Hollinrake: To set the context, clause 131 permits the application of company law to limited partnerships where that provision of company law is similar to, or corresponds to, limited partnership law. That will ensure that when company law is amended over time, the corresponding limited partnership law can be amended alongside it, making it easier to keep company law and limited partnership law aligned. To ensure the appropriate level of parliamentary scrutiny, the regulation-making power in the clause will be subject to the procedure applied to the company law that it will adapt. Government amendment 42 amends clause 131 so that the Company Directors Disqualification (Northern Ireland) Order 2002 can be updated to apply to limited partnerships, so that we can disqualify general partners for their actions within a limited partnership.

Turning to clause 132, there is some ambiguity as to whether a limited partnership that is registered in Scotland, or one that is in business in Scotland but registered elsewhere in the UK, has legal personality distinct from its partners. That has significant consequences as the partnerships that are legal persons distinct from their partners can, for example, enter into contracts and own property in their own right. The clause clarifies that only those limited partnerships that have been registered by the registrar for Scotland are legal persons distinct from their partners. That puts beyond doubt the fact that limited partnerships that have their principal base of business in Scotland but are not registered in Scotland are not legal persons in their own right—the place of registration is determinative.

Clause 133 provides that regulation-making powers can also make consequential, supplementary, incidental, transitional and saving provisions. It sets out definitions for negative and affirmative procedures. I am happy to let Opposition Members speak to their amendment before I respond.

Seema Malhotra: It is a pleasure to speak to new clause 48, which would extend the investigations regime under part XIV of the Companies Act 1985 to include limited partnerships. The new clause simply applies to limited partnerships the investigation regimes that companies are currently subject to. We have heard throughout the Committee's debate on part 2 of the Bill how limited partnerships can be used as a vehicle for economic crime. We have raised numerous concerns, reports and consultations by this Government and other agencies that identify the risk of economic crime through limited partnerships and Scottish limited partnerships. As a result, new clause 48 provides a simple mechanism for applying more scrutiny and transparency to limited partnerships—something I am sure the Government will agree is important. I would be grateful for the Minister's response on this matter. I hope the Minister will consider the strong reasons for bringing in this new clause.

Kevin Hollinrake: On new clause 48, it is of course right that Companies House should have the necessary powers to investigate wrongdoing by limited partnerships. I am fully signed up to improving transparency and scrutiny, as the shadow Minister knows. One thing we want to avoid, though, is duplication. I will set out why I think the amendment is unnecessary on that basis.

The provisions set out in part XIV of the Companies Act 1985 allow the Secretary of State to appoint investigators to conduct investigations into companies' affairs. Part XIV applies to companies, overseas companies, and limited liability partnerships. All of these are bodies corporate with independent legal personality. In these cases, it makes sense to have powers to investigate the conduct of the people running them to ensure that they cannot hide behind the independent legal personality of the entity itself.

In contrast, where a limited partnership has no separate legal personality, the conduct of its partners is unshielded. They can already be investigated for fraudulent and other unlawful conduct under existing criminal law and prosecuted accordingly. Where a partner in a limited partnership is itself a company, the provisions of part XIV would already apply to them. It is therefore unnecessary to extend the investigations regime under part XIV in its entirety to limited partnerships, as this amendment would.

Nevertheless, I welcome and am happy to consider suggestions that help us to root out wrongdoers and deal with them appropriately. I have asked my officials to consider which of the measures in part XIV of the 1985 Act there might be a case for refashioning to bolster the authorities' ability to investigate limited partnerships and those concerned in their management.

Seema Malhotra: I thank the Minister for his very helpful response to new clause 48. I think it is the right way forward to be considering the provisions in part XIV of the Companies Act 1985 that might be relevant and applicable, so that we do not duplicate what may be on statute elsewhere. The easiest way to keep this issue on record for further debate would be for the Minister to come back to me in writing once officials have had a chance to make their assessment. We would be grateful for that.

Clause 131 sets out provision for regulations to be made by the Secretary of State to facilitate the continuing alignment of partnership law with general company law. We support this, and the discussion we have just had is in alignment with that principle. We also support amendment 42. Clause 132 sets out provisions to make it clear that a limited partnership registered in any part of the UK other than Scotland does not have an independent legal personality, even if its principal place of business is in Scotland. The location of registration is the determining factor. It would be helpful if the Minister spoke to this measure, so that we are clear on the reasons behind it. Clause 133 inserts new section 28 into the Limited Partnerships Act 1907 and sets out the general provisions for regulations that can be made under that Act and that the power to make regulations will be exercisable by SI.

I also just wanted to clarify the process by which regulations will be made, because I think they are subject to negative procedure rather than positive resolution procedure. I just wondered why the Government have made that decision about these regulations.

Kevin Hollinrake: In terms of the situation with Scotland, it can be confusing for third parties—it might be a bank, for example; opening a bank account—to understand the difference between a business that is operating in Scotland and has a base there, and one that is registered as a Scottish limited partnership. This measure is trying to clarify in law the difference between the two, to try to ensure that the right questions are asked in those circumstances. That is the basis for this clarification.

If I may, I will write to the hon. Lady to say why we have determined that regulations made under the negative or affirmative procedure should be treated in the way she describes.

Amendment 42 agreed to.

Clause 131, as amended, ordered to stand part of the Bill.

Clauses 132 and 133 ordered to stand part of the Bill.

Clause 134

LIMITED PARTNERSHIPS: FURTHER AMENDMENTS

Question proposed, That the clause stand part of the Bill.

The Chair: With this, it will be convenient to consider that schedule 5 be the Fifth schedule to the Bill.

Kevin Hollinrake: Clause 134 omits section 17 of the Limited Partnerships Act 1907, which gives a power to the Board of Trade to make rulings relating to the registrar's functions, including duties, forms and performance of officers. This is because section 1068 of the Companies Act 2006 contains a power for the registrar to impose requirements about the form, authentication and manner of delivery for documents, which renders section 17 of the 1907 Act unnecessary.

Schedule 5 adds new headings to the 1907 Act to ensure that the legislation flows coherently. These reflect the new provisions inserted into the 1907 Act by this Bill.

Seema Malhotra: I am grateful to the Minister for laying that out. As he outlined, clause 134 omits section 17 of the Limited Partnerships Act 1907 and introduces schedule 5 to that Act, which makes consequential amendments. We have no issues with or comments to make on this clause.

Question put and agreed to.

Clause 134 accordingly ordered to stand part of the Bill.

Schedule 5 agreed to.

Clause 135

REGISTER OF OVERSEAS ENTITIES

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: The clauses that we will now debate in part 3 of the Bill make amendments to the Economic Crime (Transparency and Enforcement) Act 2022, which establishes the register of overseas entities. The amendments all serve either to either address issues identified post-implementation or to align the ECTE Act with similar provisions in companies legislation, for instance provisions relating to false statement offences.

The ECTE Act requires overseas entities that own or intend to own land in the United Kingdom to register their beneficial owners with Companies House in certain circumstances. The ROE opened for registrations on 1 August 2022. Section 3 of the ECTE Act currently states that the register is to consist of the following:

"a list of registered overseas entities…documents delivered to the registrar under this Part or regulations made under it, or otherwise in connection with the register, and…any other information required to be included in the register by this Part or regulations made under it."

12.45 pm

Clause 135 amends section 3(2)(b) of the 2022 Act to clarify that the register will consist of documents delivered to the registrar under the Companies Act 2006, as well as under the ECTE Act—for example, responses to an information notice sent under proposed new section 1092A of the Companies Act, which is inserted by this Bill. That form of wording is clearer than the previous wording,

"or otherwise in connection to the register".

The clause will clarify the contents of the register of overseas entities by addressing an issue over the clarity of the current drafting identified post implementation.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairmanship, Ms Elliott. I want to make a few general points about registers of beneficial ownership and have a number of questions for the Minister, as a preamble to commenting on clause 135 specifically. Registers of beneficial ownership are not, of course, a new concept. We have had one for UK companies, namely the people of significant control register, since 2016. In that year, David Cameron made what would turn out to be the first of many promises to introduce a register of overseas owners of UK property, meaning that for the first time

"foreign companies that already hold or want to buy property in the UK will be forced to reveal who really owns them".

Yet here we are, six and a half years and four Prime Ministers later, still discussing how to implement the register. After years of kicking the can down the road, it

[Stephen Kinnock]

took the Russian invasion of Ukraine to jolt the Government into action. The first of this year's economic crime Bills, now the Economic Crime (Transparency and Enforcement) Act, provided the legislative basis for the register of overseas entities, which at long last went live on 1 August.

As much as I welcome the fact that the register is now up and running, it remains very much a work in progress. The legislation passed earlier this year was rushed through on an expedited timetable, with just two weeks of debate. The need to amend what was clearly a hastily drafted law is reflected in the changes set out in clauses 135 to 140. Before addressing the substance of the clauses, it is worth taking stock of what progress has been made in setting up the register and, more importantly, what more needs to be done. According to Government figures, some 32,000 overseas companies are required to register with Companies House by 31 January. Between them, those companies own almost 100,000 properties in the UK. It was the Minister himself, in his previous incarnation as a Back Bencher, who argued forcefully back in March for the transition period during which those 32,000 companies would be required to register to be limited to six months.

Now that we have reached the halfway point in the process, I asked the Minister in written questions how many companies have now registered. Members might have reasonably expected the number to be somewhere in the region of 16,000, or half of the 32,000 total required. Imagine my surprise and disappointment when the Minister replied to my written question saying that, in fact, only 3,214 entities had registered as of last week; in other words, just 10% of those required. If progress were to continue at such a sluggish rate, the register would not be completed until 2025. I therefore ask the Minister whether he has a magic wand, and whether he intends to use it to ensure that the remaining 90% of companies comply with the registration requirement in the next three months.

I will also ask the Minister what he thinks is the reason for the astonishingly low number of registrations to date. But the answer to that question is in fact clear: the failure of the Government to enact the new law until the situation became urgent due to the war in Ukraine meant that the regulations and statutory guidance were sloppily drafted without consultation, leaving the entire framework riddled with holes and shrouded in uncertainty.

I hope the Minister will take the opportunity we have today to clarify some of the issues. Companies House has written to entities to inform them that they need to register, but the data used to contact them came from the Land Registry. That data is, in many cases, out of date. What assessment have the Government made of the accuracy of the contact information provided by the Land Registry? What steps is the Minister taking to ensure that everyone who is expected to register is at least made aware of the requirement in time for them to apply ahead of the 31 January deadline?

Will the Minister also confirm what additional resources, if any, have been made available to Companies House to support the introduction of the register? How many staff are now working to support its implementation? What preparations are the Government making to deal with companies that fail to comply before the deadline? Specifically, how will Companies House identify such companies and work quickly to impose the financial and criminal penalties that the Government have provided for? Will the Minister explain how the Government plan to deal with companies whose beneficial ownership cannot be verified? His Department's guidance says that entities that claim to have no beneficial owner should provide information without a "managing officer", but that term is not defined in the guidance. Can the Minister shed some light on this?

Clause 135 makes what appear to be minor technical changes to the wording of documentation to be held as part of the register. To the extent that those changes help ensure that the information on the register is giving as complete and as accurate a picture of companies beneficial ownership as possible, the changes are welcomed by the Opposition.

Kevin Hollinrake: I very much value the hon. Gentleman's comments and reflections. There is no doubt at all that the measures are a work in progress; that is one of the reasons behind the Bill, of course. I enjoyed answering his questions in writing and we will no doubt correspond further on such matters. He is right to scrutinise the activities of Companies House, which I have sought to do as well.

Let me give a few facts that may help the hon. Gentleman. As of today, there are 3,893 registrations; that is a more up-to-date figure than the one I gave him on 11 November, which was about 3,500. That equates to about 400 in the past six or seven days, which illustrates that the number of registrations is increasing significantly. We always thought that there would be a last-minute rush to file because, as the hon. Gentleman knows, there are significant penalties for not doing so: up to £2,500 per day and a prison sentence of up to five years. That is the risk that those who do not comply are taking, which is pretty significant, so we always thought that there would be a last-minute rush.

To answer one or two of his other questions, eight people are working full time on the register of overseas entities and 20 are trained to handle registrations. They are deployed relevant to workload. There is no current backlog at His Majesty's Revenue and Customs in this regard. A managing officer is defined in the Act as being akin to a director, secretary or manager.

Stephen Kinnock: On that point about staffing, I think the Minister's point is that there will be a last-minute rush. Is he confident that the current staffing levels are sufficient to cope with that last-minute rush—that surge?

Kevin Hollinrake: I am not intimately involved in the management of the register. It would be interesting to see and that is a fair point. I will write to the hon. Gentleman. I have asked Companies House to provide us with that information, which it has done, about the activities it is undertaking to pursue people who have not yet completed their registration. We will continue to do that. In the meantime, I am happy to write to the hon. Gentleman on the points he has raised and, indeed, on his further point about making sure that we have enough staff to deal with the last-minute rush that we anticipate.

Stephen Kinnock: I thank the Minister for that. Does he have any thoughts on the interface between the Land Registry and the register of beneficial owners? It appears that a lot of the information on the Land Registry is seriously outdated. What steps are being taken to address that challenge, and does he see a risk in the communication between them?

Kevin Hollinrake: I do not see there being a risk of a lack of communication; they seem to be working together adequately. There is no doubt that some information is out of date. Many overseas entities have not kept their address details up to date, and many letters have been returned as undeliverable. Companies House is undertaking open-source research to try to identify up-to-date addresses, and we are working with stakeholders to raise awareness of the requirements and the deadline.

Companies House is used to dealing with large number of registrations, and we believe it can handle much larger volumes than it is receiving. The hon. Gentleman has asked some detailed questions and made some salient points that I want to follow up with Companies House in order to make sure that we can maintain the register properly, and I suggest we correspond on that basis.

Question put and agreed to.

Clause 135 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

12.56 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

Fourteenth Sitting

Thursday 17 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

Monday 21 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 17 November 2022

(Afternoon)

[Sir Christopher Chope *in the Chair*]

Economic Crime and Corporate Transparency Bill

Clause 136

False statement offences in connection with information notices

2 pm

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 137 and clause 157 stand part.

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, Sir Christopher.

The clause amends section 15 of the Economic Crime (Transparency and Enforcement) Act 2022 to align it with amendments made to section 32 during the passage of that Act and with amendments introduced by this Bill. The clause substitutes section 15 and adds proposed new sections 15A and 15B.

Proposed new section 15 restates and slightly amends the general false statement offence in section 32 of the ECTE Act to reflect changes made by the Judicial Review and Courts Act 2022. Existing section 15 restricts the false statement offence to being committed when a person knowingly or recklessly makes a false statement in response to a notice. Proposed new sections 15A and 15B amend that offence to change the threshold to be met, by splitting it into two separate offences. That aligns with section 32 of the ECTE Act and amendments to that section introduced by the Bill.

Clause 137 amends section 32 of the ECTE Act on the general false statement offence. The effect of the amendment is that both the basic offence and the aggravated offence are expanded so that a false statement offence can be committed by a legal entity, and, where this is the case, by every officer of the entity in default. That maintains consistency with other legislation amended by the Bill. The penalty for committing the aggravated offence on summary conviction in England and Wales is also amended in line with the Judicial Review and Courts Act.

Clause 157 amends the Reports on Payments to Governments Regulations 2014. Those regulations require certain large businesses in the extractive industries to report annually their payments to overseas Governments associated with the extraction activities. The regulations were brought in to support accountability and to reduce space for corruption.

The Government are conducting a post-implementation review of the regulations to evaluate their impacts and effectiveness. However, in advance of that, the Government propose that the false statements offences and penalties in the regulations be updated to provide consistency with other offences, as previously outlined.

Clause 157 does not alter the requirement for any prosecutions for non-compliance with the 2014 regulations to be mounted or approved by the Attorney General or the Director of Public Prosecutions—or, in Northern Ireland, by the Secretary of State or the Northern Ireland Director of Public Prosecutions—to ensure that they are in the public interest.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Sir Christopher. Compared with clause 135, clauses 136, 137 and 157 are more substantial. In drafting them, the Government appear to have accepted that the existing law in relation to false statement offences is too narrow to serve either as an effective deterrent or as a useful tool for law enforcement.

Clause 136 removes the requirement to prove that false information had been submitted knowingly and recklessly. That is a very high bar for prosecutors to clear, and the introduction of a broader set of criteria for these offences is therefore welcome. The changes will replace the existing false statement offence with a two-tier approach that will provide a range of options for dealing with overseas entities that either fail to provide information about beneficial ownership upon request or respond with false or misleading information.

The basic offence, which will not require evidence that a false statement had been made knowingly or recklessly, should provide a strong incentive for companies to be as rigorous as possible in ensuring that any information they provide is completely accurate. Of course, the financial penalties for such an offence will need to be set at a level sufficient to impose a significant cost on non-compliant companies. Will the Minister therefore comment on how he will ensure that penalties are set at a rate commensurate with achieving that objective?

Particularly welcome is the additional provision in clause 137 for an aggravated offence in cases where an intent to mislead can be proven, as is the extension of the changes to the reporting requirements in relation to payments to foreign Governments under clause 147. The threat of criminal convictions, with custodial sentences of up to two years, sends a strong message that fraudulent activities must not and cannot be tolerated.

Of course, in these clauses, as elsewhere in the Bill, the jury will be out on whether the changes will have any meaningful impact on economic crime until we can be sure that compliance with the law is robustly monitored and that non-compliance will be punished to the fullest extent of the law. The Committee will be grateful for any reassurances that the Minister can provide, especially on what preparations are being made to ensure that offences are identified and prosecuted as swiftly as possible, because he has repeatedly said that legislation without robust implementation is not worth the paper it is written on.

Kevin Hollinrake: As for the level of fines, in England and Wales they can be unlimited—level 5 on the scale.

Stephen Kinnock: I thank the Minister for that clarification. Does he have any broader assurances around enforcement and implementation? It would be useful to get a sense of what institutional or organisational capability he envisages, and of whether that is in line with what the Bill is trying to achieve.

Kevin Hollinrake: As the hon. Gentleman knows, as we have discussed on many occasions and as I am on the record as saying, legislation without implementation is worthless. We need to ensure that offences are discovered and then prosecuted. Of course, we must ensure that the registrar, and the law enforcement agencies they work with, have sufficient capacity and resources to do the job. The Bill does not cover that directly, but I am certainly keen to ensure that happens.

Stephen Kinnock: I thank the Minister for those assurances. I have no further comments.

Question put and agreed to.

Clause 136 accordingly ordered to stand part of the Bill.

Clause 137 ordered to stand part of the Bill.

Clause 138

MEANING OF "SERVICE ADDRESS"

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: Clause 138 will improve the effectiveness of the register of overseas entities by defining "service address" so that it has the same meaning as in the Companies Act 2006. That will help those registering as overseas entities to ensure that they understand what a service address is, and that they must provide an address that meets the definition.

Stephen Kinnock: Clause 138 is another relatively minor change to the definition of a company's service address, and it brings the definition used for the purposes of the overseas entities register into line with the language in the Companies Act. That language, the Committee will recall, defines a service address as a place where documents may be served to someone. We have already debated the potential problems of relying on such a definition in the context of amendments in which the Opposition sought to restrict and clarify what counts as an appropriate address for a company to register.

While we will not go back on all that and re-litigate those lengthy arguments, and while we will not oppose the clause, I put on the record that the Opposition do not believe that the Bill goes as far as it could and should have to prevent the fraudulent or unauthorised use of addresses. I am sure that we will come back to that on Report.

Question put and agreed to.

Clause 138 accordingly ordered to stand part of the Bill.

Clause 139

MEANING OF "REGISTERED OVERSEAS ENTITY" IN LAND REGISTRATION LEGISLATION

Question proposed, That the clause stand part of the Bill.

Kevin Hollinrake: The clause amends the Land Registration Act 2002, Land Registration etc. (Scotland) Act 2012 and the Land Registration Act (Northern Ireland) 1970. It will improve the effectiveness of the register of overseas entities by punishing a registered overseas entity for failing to comply with the registrar's new power—as inserted into the Companies Act by the Bill—to require information from the entity.

Currently, an overseas entity will lose its status as a registered overseas entity if it fails to provide an annual update to the registrar. The clause adds that an overseas entity will also lose its status as a registered overseas entity if it fails to respond to a notice from the registrar requesting information. Once it is no longer considered to be a registered overseas entity, the entity will be treated as non-compliant. A non-compliant entity will find it difficult to sell, lease or raise charges over its land and cannot therefore deal freely with it.

Upon submitting the requested information to the registrar, the overseas entity will once more be compliant. However, the compliance status is not retrospective. Any person dealing with the overseas entity in the non-compliance period will be unable to register any completed transaction with the land registries. I know that all Members will join me in wanting to ensure the robustness of the register and ensure that overseas entities comply with their duties, or face tough restrictions. The clause will help Companies House to do so.

Stephen Kinnock: The clause makes some relatively minor changes to the language on the requirement to provide information requested by the registrar. The effect is to extend the existing restrictions on the ability of an overseas entity to deal with property it owns, such as by selling it, in order to apply the restrictions to companies that fail to comply with the registrar's requests for information. The change is sensible and pragmatic, and the Opposition support it.

Question put and agreed to.

Clause 139 accordingly ordered to stand part of the Bill.

Clause 140

POWER TO APPLY PART 1 AMENDMENTS TO REGISTER OF OVERSEAS ENTITIES

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Government new clause 19—*Resolving inconsistencies in the register.*

Government new clause 20—*Administrative removal of material from register.*

Kevin Hollinrake: Section 27 of the ECTE Act allows the registrar to require an overseas entity to resolve an inconsistency in information delivered to her where it appears to be inconsistent with other information on the register of overseas entities. New clause 19 amends section 27, so that the registrar may use any information she possesses, not only that published on the register, to require an overseas entity to resolve a suspected inconsistency. That will strengthen her ability to ensure that the register is accurate and reliable.

[Kevin Hollinrake]

Government new clause 20 mirrors amendments made in the Bill to equivalent sections in the Companies Act 2006 to ensure consistency between the Act and this Bill when it becomes an Act, and to enhance the registrar's power to remove material from the register, which is limited under section 28 of the ECTE Act. She can only remove from the register information where there was a power but no duty to include it, or where it no longer appears reasonably necessary for the purposes for which the material was delivered to the registrar.

Proposed new section 28 will ensure that material that is unnecessary or does not meet proper delivery requirements can be removed at the discretion of the registrar, either unilaterally or upon application. The Secretary of State will also have the power to specify what sort of material can be removed from the register upon application, so that the scope of material eligible for removal can be modified in line with future operational needs. Under proposed new section 28A, the Secretary of State must make regulations that set out what notice the registrar should give when unilaterally removing information, and the processes to be followed in determining applications for removal.

The clause strengthens the registrar's powers and ensures that she has all the necessary tools at her disposal to clean up the register of overseas entities proactively. The clause also allows the Secretary of State to amend the ECTE Act to apply any changes that part 1 of the Bill may make to corresponding provisions in the Companies Act. The ECTE Act contains a number of provisions that correspond to those in the Companies Act. Given the number of changes that part 1 of the Bill makes to the Companies Act, the clause is necessary to ensure that accuracy and consistency are maintained between the ECTE Act and the Companies Act, and the respective registers of overseas entities and of UK companies.

2.15 pm

Stephen Kinnock: The clause provides for certain changes to be made to the Companies Act via regulations using Henry VIII powers, where necessary, to bring the Act into line with the provisions in part 1 of the Bill. The Government's use of Henry VIII powers to change primary legislation has generated some criticism in other contexts, but the provision that the Government have made in this clause for the relevant regulations to be subject to the affirmative procedure represents a welcome commitment to parliamentary scrutiny on their part.

Finally, the Government's new clauses 19 and 20 have been tabled to ensure that the provisions on resolving inconsistencies in the register and on removing material from it are applied to overseas entities on the same basis as to other registered companies. Those are also sensible and pragmatic changes, which the Opposition are happy to support.

Question put and agreed to.

Clause 140 accordingly ordered to stand part of the Bill.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

2.17 pm

Adjourned till Tuesday 22 November at twenty-five past Nine o'clock.

Written evidence reported to the House

ECCTB 19 Association of Police and Crime Commissioners (APCC)

ECCTB 20 ICAEW (The Institute of Chartered Accountants in England and Wales)

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Fifteenth Sitting

Tuesday 22 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

Saturday 26 November 2022

The Committee consisted of the following Members:

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

† 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 22 November 2022

(Morning)

[Ian Paisley *in the Chair*]

Economic Crime and Corporate Transparency Bill

9.25 am

Ordered,

That the Order of the Committee of 25 October 2022 be amended in paragraph (1), by inserting after sub-paragraph (i)--

"(j) at 9.25 am and 2 pm on Tuesday 29 November;".—(*Scott Mann.*)

Clause 141

Cryptoassets: confiscation orders

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss that schedule 6 be the Sixth schedule to the Bill.

The Minister for Security (Tom Tugendhat): It is a great privilege, as always, to be with you this morning, Mr Paisley, and to enjoy the possibility of conversing about the Proceeds of Crime Act 2002.

The clause introduces schedule 6 to the Bill, which amends the criminal confiscation powers contained in parts 2, 3 and 4 of the Proceeds of Crime Act 2002—known as POCA, not to me, but to some presumably—to make it easier for law enforcement agencies to seize, detain and recover cryptoassets in more circumstances than at present. Schedule 6 will amend the provisions in each of the three existing confiscation regimes that extend to England and Wales, Scotland, and Northern Ireland so that the measures apply in all parts of the United Kingdom. That is reflected in the three parts of schedule 6.

Key definitions in schedule 6, such as those of "cryptoasset" and "cryptoasset exchange provider", are consistent with those used elsewhere in the Proceeds of Crime Act. The schedule includes powers to update those defined terms to ensure that the measures in the Bill can keep pace with the constantly evolving criminal use of cryptoassets, the rapidly changing nature of crypto technology as well as stay aligned with other legislation dealing with similar threats.

Stephen Kinnock (Aberavon) (Lab): It is a great pleasure to serve under your chairship today, Mr Paisley. I take the opportunity to welcome the Minister to his place; I do not think that I have done so formally, although I might well have done informally. It is good to see him in his place.

I want to make some general comments about cryptocurrencies and about the clause and schedule 6. Broadly speaking, they have some positive aspects, but we also have some questions for the Minister, and I am sure that he will explain the position with his customary lucidity once I have sat down.

Cryptocurrencies and other digital assets are not new, but how they should be regulated is still very much an open question in the UK and internationally. The Government's decision to expand the legal framework for asset recovery under the Proceeds of Crime Act is a positive development. For that to work, however, we need to be clear about what the legislation intends to achieve.

It is fair to say that the Government have sent mixed messages about their approach to regulating cryptoassets. On the one hand, they have acknowledged the need to tackle the use of cryptoassets for criminal purposes, hence the decision to extend the money laundering regulations to cryptoasset businesses, which has been under the supervision of the Financial Conduct Authority since January 2020. In the factsheet published alongside the Bill, the Government set out their view:

"Cryptoassets are now increasingly being used by criminals to move and launder the profits of various crimes including drugs, fraud, and money laundering. There is also an increased risk that cryptoassets are being exploited to raise and move funds for terrorist activities."

On the other hand, earlier this year, the then Chancellor of the Exchequer, who is now the Prime Minister, said that it was his

"ambition to make the UK a global hub for cryptoasset technology".

The then Economic Secretary to the Treasury echoed that, saying in a speech at the Innovate Finance global summit in April:

"If there is one message I want you to leave here today with, it is that the UK is open for business—open for crypto-businesses";

and

"Because we want this country to be a global hub—the very best place in the world to start and scale crypto-companies."

It concerns me that the Government do not seem to have made up their mind whether as a country we should value crypto firms and want to entice them to the UK, or whether we should recognise the ease with, and scale at which, criminal activity within crypto markets is allowed to happen and therefore should prioritise tightening regulation and enforcement by cracking down on the widespread use of such assets to defraud individuals and undermine our national security. Perhaps the Minister will shed some light on that strategic dilemma or ambiguity and on how the Government plan to reconcile those two apparently competing aims.

I do not want to pre-empt what the Minister will say, but I imagine that he will claim that it is possible to do both.

Tom Tugendhat: Indeed.

Stephen Kinnock: But is it not simply the case that we are not putting enough resources into the enforcement of laws and the policing of such markets? That is fundamental to achieving the regulatory aim of that side of the equation.

Crypto-expert Aidan Larkin recently told me how the US Government's money laundering and asset recovery section brings in around $800 million a year in crypto-recovery alone, while the UK brings in close to nothing, because the UK Government fail to employ the handful of experts required simply to study the blockchains via things such as bitcoin analytics and to follow the illicit finance—"to follow the money", as the saying goes. I cannot pretend to be an expert on the technical aspects of that, but it feels like a missed opportunity to go after illegal activity. We have surely reached a point in time when that could be self-funding, if we did it properly.

I am simply not convinced that the system for regulating cryptoassets is working as well as intended. Indeed, it is pretty telling that in response to written questions 86505 and 86504, which I tabled last week, the Minister admitted that none of the 200-plus crypto businesses operating without commission had been subject to any criminal or civil penalties.

As I mentioned, since January 2020 there has been a requirement for new businesses carrying on cryptoasset activity in the UK to register with the FCA. The requirement was extended to existing businesses the following year. The implementation of the register, however, has been beset by problems, not least of which is the fact that a very large number of the firms required to register have not done so. The FCA seems to have been unable to do much about that.

Only a couple of weeks ago, the *Financial Times* reported that only 16% of applications for registration have been approved by the FCA. The FCA has said that a large number of firms that failed to meet the conditions for registration have withdrawn their applications and that many of those appear to have carried on doing business without the requisite permission. Indeed, the FCA maintains a list of unauthorised cryptoasset businesses operating in the UK. As of last week, 245 firms were on that list. Will the Minister explain what is being done to prevent those 245 firms that operate outside the money laundering rules from scamming members of the public, facilitating money laundering or assisting the evasion of economic sanctions?

The Government have been aware for some time of problems involving the use of cryptoassets to defraud members of the public. In October 2018, the Government's own Cryptoassets Taskforce published a report that identified advertising that misleads people deliberately, by overstating the potential gains from investing in such assets and downplaying the risks involved, as a significant problem for the Government to address. Only now, after four years, are new rules being introduced to expand the FCA's remit to include consumer protection in relation to misleading financial promotions.

Despite that, however, a clear gap remains between the scale of criminal activity in the sector and the ability of the FCA and police forces to respond. In recent evidence provided to the Treasury Committee, Ian Taylor of the crypto trade body, CryptoUK, said that the recent collapse of high-profile crypto exchanges such as FTX could have been prevented had a stronger regulatory system been in place. Multiple witnesses testified to the Committee that, without additional staff with the right expertise, the FCA was unlikely to be able to regulate the crypto sector effectively.

Let me turn to the substance of the clause and schedule 6. It is clearly necessary for the law to be brought up to date to reflect the use of digital assets for criminal purposes. The clause and schedule amend the Proceeds of Crime Act 2002, to extend to intangible assets the same confiscation powers that are already used to recover physical assets like cash. That is an important first step, but in many ways the Bill leaves open more questions than it answers.

For instance, the Bill provides new powers to seize cryptoasset-related items, but the definition of those items is incredibly vague, encompassing any item of property that may provide access to some kind of information that could be relevant to an effort to seize a cryptoasset. Given the broad scope of the powers, alongside the related provisions on the destruction of confiscated property, we need more information from the Minister about how the powers are likely to be used in practice.

Alison Thewliss (Glasgow Central) (SNP): I agree very much with what has been said from the Labour Front Bench. I ask the Minister about the interaction between this Bill and all the other Bills that are considering crypto at the moment, including the Online Safety Bill, which addresses some aspects of people being exposed online to financial crime. The Treasury Committee report on economic crime pushed quite strongly on having an aspect on economic crime in the Online Safety Bill, because it is important that people are not scammed online. To me and to many others, crypto seems very much a place where people do get scammed and lose all their money.

I draw the Committee's attention to an interview by Henry Mance in the *Financial Times* yesterday with Stephen Diehl, who is very cynical about the crypto industry and its ability to rip people off. We have to be incredibly careful about the areas we are getting into; we are legislating for something that is moving very quickly. Given the number of Government amendment that will be made to the schedules in this part of the Bill, we need to think carefully about what we are putting in and whether it is suitable for seizing assets and for protecting people against crypto-related fraud more widely.

My other point is about expertise. I have talked an awful lot about the Government having expertise in various areas on the enforcement side, because if there is no expertise in enforcement, the laws that we are considering will just not be enforced. In our evidence session, Andy Gould said:

> "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."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 24, Q37.]

If the money is not there in policing to retain the expertise to prosecute crypto crimes and to make sure that the legislation works in practice, rather than just on paper, the Government will be very much behind the curve.

I add my hesitation on the messages the Government are giving out on regulating and encouraging and on cracking down on a sector that has the potential, as we have seen with the collapse last week, of losing an awful lot of people their money and of making some people an awful lot of money out of those who have lost it.

Tom Tugendhat: If I may, I will just give a quick explanation of what crypto is because there seems to be some misunderstanding. Crypto is both a technology and a financial instrument. The financial instrument element is only part of it. Allowing for crypto technology is basically allowing for mathematics. Passing laws against crypto is like passing laws against mathematics—we can try, but it is not going to work.

What the now Prime Minister was talking about was encouraging the mathematics, the algorithms and the technology to develop in this country to create the kind of industry and the kind of infrastructure that would allow the technological use of algorithms for the transfer,

[Tom Tugendhat]

sometimes of wealth, sometimes of knowledge, sometimes of contractual obligations. That is what blockchain fundamentally is.

On top of the blockchain, there are various forms of currency. There are bitcoins, which are proof of work, and then there is ethereum, which is proof of stake. These are different kinds of technologies and different ways in which cryptoassets use the blockchains and the technology that has underwritten them.

Having regulation for the currency is not the same as having regulation for the underlying mathematics. We would not say that we have regulation for the economist in the same way that we have regulation for the bank—they are different things. The Government are doing the right thing. We recognise that there is technology, and supporting it; we recognise that there are financial instruments, and are looking to work with others to make sure that those financial instruments are regulated in a sensible way. Now, that is difficult: I will be honest. It is difficult because the technology and its use are changing remarkably. The hon. Member for Aberavon spoke about FTX. As he may know, other companies such as Celsius and Gemini have stopped trading in various different ways, as well. It is not just about one instrument. It is certainly arguable that FTX got into difficulties for reasons other than lack of regulation.

The hon. Member's point about advertising is extremely valid. There is a real challenge. That is different—it does not quite relate to this element of the Bill. We are seeing increasing amounts of financial advertising online in different ways. I do not know how many members of the Committee have Instagram accounts, but the number of Instagram messages I get advertising foreign exchange trading is frankly bizarre.

Liam Byrne (Birmingham, Hodge Hill) (Lab): No one else gets those!

Tom Tugendhat: I do not want to know what they advertise to the right hon. Gentleman. They don't do it by pigeon.

The reality is that there are different ways in which people are trying to hack and attack, to steal from individuals in our country and around the world. That is why the work we are doing on the Joint Fraud Taskforce, which met yesterday, and on many other aspects of regulation, such as the Online Safety Bill, which the hon. Member for Glasgow Central quite rightly spoke about, is so important. The FCA has moved forward on many of those areas, in a sensible way, to balance the need of the technology to advance with the protection of society. It is certainly true that many people have lost a lot in recent weeks and months. I do not think anybody was under any great illusion, though, that cryptocurrencies were not a high-risk item, to put it politely. Anything worth about $1 10 years ago and $60,000 a few years later is probably not a stable currency. It may be many things, but it is probably not stable. It is now worth about $10,000 or so—

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): Thirteen.

Tom Tugendhat: So, $13,000. That certainly speaks to the level of volatility. It has been up and down like a yo-yo in between times, so it is not exactly as though anybody would have been recommended it as an investment vehicle. I understand the hon. Lady's points about online safety and fraud, and she is completely correct, but that is being addressed in different aspects of Government policy. What the Bill does is make sure that those assets that are held in cryptocurrency can be seized, as other assets can. It is certainly true that they are held in different ways, as the gentleman who is going through the waste dump in Wales is discovering. That means that seizing the assets needs a certain ambiguity in the legislation in order to keep it updated for the future. The Government have made a sensible series of suggestions to balance that need for advancing the technology and protecting consumers.

Stephen Kinnock: The Minister is being very generous. On that point about seizing the assets, will the Minister comment on the feedback that Aidan Larkin, an expert in this area, gave me, which is that in the United States money laundering and asset recovery measures bring in about $800 million per year? He says that we do not employ enough people doing block chain analytics. We are missing a big opportunity to generate revenue for the Exchequer.

Tom Tugendhat: I am delighted that the hon. Gentleman will now be supporting this element of the Bill, because that is exactly what it is for.

Stephen Kinnock: I thank the Minister for sitting down even before I had intervened.

Tom Tugendhat: I thought I had finished.

Stephen Kinnock: It seems that this is an issue around resourcing and having the people in place—the handful of experts that we need to study the blockchains. Will the Minister assure the Committee that that resourcing will be provided?

Tom Tugendhat: I can assure the hon. Gentleman that the National Crime Agency, working alongside partners in places such as GCHQ, has enormous amounts of technology to look at cryptoassets in various different ways. The Bill—which I am delighted to hear the hon. Gentleman supports so enthusiastically—will indeed give the powers that he looks for.

Question put and agreed to.

Clause 141 accordingly ordered to stand part of the Bill.

Schedule 6 agreed to.

Clause 142

CRYPTOASSETS: CIVIL RECOVERY

9.45 am

Tom Tugendhat: I beg to move amendment 121, in clause 142, page 125, line 18, at end insert—

"(2) It also contains related amendments.".

This amendment provides for Schedule 7 (cryptoassets: civil recovery) to contain related amendments.

The Chair: With this it will be convenient to discuss Government amendments 51 to 64, 156, 157, 65 to 67 and 158 to 161.

Tom Tugendhat: This is a series of small wording and technical amendments that make no substantial changes to schedule 7, but simply ensure clarity and maintain consistency in the Bill's drafting.

Stephen Kinnock: The use of enhanced powers to seize and detain digital assets, as set out in schedule 6, will be subject to a court order. Clause 142 and schedule 7 and the related Government amendments extend civil recovery powers, which may be used in the absence of a criminal conviction, to a range of organisations including the National Crime Agency, His Majesty's Revenue and Customs and the Serious Fraud Office, in addition to police forces. It would be helpful if the Minister could explain how the Government will ensure that these enforcement powers will be used effectively in a way that avoids duplication of effort and ensures that there is a clear division of responsibilities of the different agencies. As I have said before, numerous additional powers are provided for in the Bill that require further clarification.

The Chair: Order. I encourage you to speak to amendment 121. We will come to the other amendments in the next group.

Stephen Kinnock: I apologise—I thought we were already on that.

The Chair: I do not want to stop you in case you have something material to put on the record on amendment 121.

Stephen Kinnock: I have no substantial comment on the Government amendments. I should have made that clear. As the Minister says, these are technical amendments that do not have a huge amount of consequence.

I return to the issue of powers provided for in the Bill that require further clarification. I would be particularly grateful if the Minister could explain how the provisions enabling a digital asset to be converted into its equivalent value in cash might be used in practice.

In my view, there are other important issues in this area, which the Bill fails to address. I would be grateful if the Minister could set out what plans, if any, the Government have to update the asset confiscation powers we have been discussing and to extend the scope of the money laundering regulations to reflect technological developments such as non-fungible tokens and the use of digital works of art as a means of disguising illicit financial transactions.

Tom Tugendhat: I was rather under the impression that we had not voted on the amendment.

The Chair: We are not voting yet—we will be coming to a vote in a moment. It is for you to now conclude the debate.

Tom Tugendhat: It feels a bit sentence first, verdict afterwards, but all right.

The Chair: We have been doing it for thousands of years. Don't worry—you will get used to it.

Tom Tugendhat: What clause 142 and schedule 7 does—

The Chair: Order. We are on amendment 121.

Tom Tugendhat: I have nothing further to add on that.

Amendment 121 agreed to.

Question proposed, That the clause, as amended, stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

That schedule 7 be the Seventh schedule to the Bill.

Government new clause 23—*Cryptoassets: terrorism*.

Government new schedule 1—*Cryptoassets: terrorism.*

I call the Minister to speak to clause 142 stand part, although that might seem a bit déjà vu for some folk now.

Tom Tugendhat: It is unusual to have the Opposition argument before the ministerial one—

Stephen Kinnock: I apologise for jumping the gun, but I thought we had already debated the group.

Tom Tugendhat: I am delighted to have had the position set out so clearly.

Perhaps it would be helpful if I answered some of the hon. Gentleman's questions. The reality is that this part of the Bill is to allow law enforcement agencies to search for physical items linked to cryptoassets. As I said in answer to an earlier point, many of the assets are held in different ways. Therefore, seizing physical assets in order to link to cryptoassets is often necessary.

To use the proposed powers, officers will need reasonable grounds to suspect that the cryptoassets have been obtained through unlawful conduct or are intended for use in unlawful conduct. The powers to search for and detain assets are supplemented by powers to ultimately forfeit the cryptoassets where a magistrates court, or a sheriff court in Scotland, can be satisfied that they have been obtained through, or are intended for use in, unlawful conduct. The powers to seize or freeze and ultimately recover cryptoassets may be used irrespective of whether the asset holder has been convicted of a criminal offence. They are, therefore, an important tool for disrupting criminal activity.

Government new clause 23 and new schedule 1—which we have just heard the Opposition debate—mirror in counter-terrorist legislation the civil recovery powers in schedule 7 to the Bill by introducing new provisions into the Anti-terrorism, Crime and Security Act 2001 and the Terrorism Act 2000. That addresses a gap in existing counter-terrorism legislation and ensures that the UK's world-leading counter-terrorism framework keeps pace with modern technology.

The creation of cryptoasset-specific civil forfeiture powers in both the Proceeds of Crime Act and counter-terrorism legislation will, importantly, mitigate the risk posed by those who cannot be prosecuted under the criminal system, but who use their proceeds stored as cryptoassets to perpetrate further criminality. Key definitions in the measures inserted by schedule 7 and new schedule 1 are in line with existing legislation and with schedule 6 to the Bill. Similarly, they include powers to update the

[Tom Tugendhat]

defined terms and adapt the process for forfeiture of frozen cryptoassets, if needed. With that, I believe I have answered the Opposition's questions before they were even asked.

Stephen Kinnock: The Opposition are concerned about enforcement. As the Minister and I have agreed throughout the debate, and as his ministerial colleague has frequently said, legislation without implementation is not worth the paper it is written on. There is little point in us passing a law that cannot or will not be enforced effectively. I am, and the Opposition are, genuinely concerned about the real risk in the proposals, partly because so much detail has yet to be made clear, but mostly because of the huge gap between what we expect of law enforcement and what resources the Government are prepared to put in.

As I said about the FCA, even the most basic requirement for cryptoasset firms to register is starting to appear unworkable. Will the Minister explain, if we cannot even get such businesses to register, how on earth will we ever be able to identify which ones are breaking the law, much less impose any penalties? I look forward to his clarification.

Tom Tugendhat: I am pleased that the hon. Gentleman is so supportive of the work of the NCA, because it, GCHQ and others have been working extremely hard on identifying the movement of cryptoassets around not just the UK, but wider areas and jurisdictions. That is enormously important for the element of seizure to which he is referring.

It is also important that the conversion powers that the hon. Gentleman spoke about are understood for what they are. A few moments ago, the hon. Member for Glasgow Central asked about market volatility. That is true at any point, including at moments of seizure. Therefore, in order to avoid market volatility at moments of seizure—particularly when assets have been taken, converted to crypto in order to be moved abroad and then seized—having control of those assets means that one needs to put them into cash in order to have a recoverable asset, so this provision is extremely sensible.

The new powers are modelled on existing powers that many law enforcement agencies use to disrupt criminal and terrorist networks. They exercise proportionality and investigatory powers that are absolutely necessary, and no more.

Question put and agreed to.

Clause 142, as amended, accordingly ordered to stand part of the Bill.

Schedule 7

Cryptoassets: civil recovery

Amendments made: 51, in schedule 7, page 206, line 42, leave out "Chapter" and insert "Part".

This amendment makes a minor technical correction to inserted section 303Z42 of the Proceeds of Crime Act 2002, which relates to the procedure for applying for the forfeiture of cryptoassets.

Amendment 52, in schedule 7, page 206, leave out lines 45 to 47 and insert—

"(3) Where an application is made under section 303Z41 in relation to cryptoassets held in a crypto wallet that is subject to a crypto wallet freezing order—

(a) subsections (4) and (5) apply, and

(b) the crypto wallet freezing order is to continue to have effect until the time referred to in subsection (4)(b) or (5)."

This amendment amends inserted section 303Z42 of the Proceeds of Crime Act 2002 to provide that a crypto wallet freezing order continues to have effect until the end of any forfeiture proceedings started in respect of cryptoassets held in a crypto wallet that is subject to such a freezing order.

Amendment 53, in schedule 7, page 207, line 12, leave out "(4)" and insert "(4)(b)".

This amendment is consequential on Amendment 52.

Amendment 54, in schedule 7, page 211, line 24, leave out from "applies" to end of line 28 and insert "—

(a) the magistrates' court or sheriff decides—

(i) to make an order under section 303Z41(4) in relation to some but not all of the cryptoassets to which the application related, or

(ii) not to make an order under section 303Z41(4), or

(b) if the application is transferred in accordance with section 303Z45(1), the High Court or Court of Session decides—

(i) to make an order under section 303Z45(3) in relation to some but not all of the cryptoassets to which the application related, or

(ii) not to make an order under section 303Z45(3)."

This amendment provides that an application under inserted section 303Z46 of the Proceeds of Crime Act 2002 (continuation of crypto wallet freezing order pending appeal) may be made in circumstances where a forfeiture application under section 303Z41 of that Act is transferred in accordance with section 303Z45 of that Act to be heard by the High Court or the Court of Session.

Amendment 55, in schedule 7, page 211, line 31, leave out "(1)(a) or (b)" and insert "(1)".

This amendment is consequential on Amendment 54.

Amendment 56, in schedule 7, page 211, line 37, leave out "under section 303Z47" and insert

"(whether under section 303Z47 or otherwise)".

This amendment is consequential on Amendment 54.

Amendment 57, in schedule 7, page 211, line 39, leave out "(1)(a) or (b)" and insert "(1)".

This amendment is consequential on Amendment 54.

Amendment 58, in schedule 7, page 213, line 2, leave out "with the approval of" and insert

"if the officer is a senior officer or is authorised to do so by".

This amendment amends inserted section 303Z48 of the Proceeds of Crime Act 2002 to provide that an enforcement officer may destroy forfeited cryptoassets only if the officer is a senior officer or is authorised to do so by a senior officer.

Amendment 59, in schedule 7, page 214, line 44, after "may" insert ", subject to subsection (7A),".

This amendment and Amendments 60 and 62 amend inserted section 303Z51 of the Proceeds of Crime Act 2002 to provide that cryptoassets may not be released under that section while forfeiture proceedings are ongoing in respect of those cryptoassets.

Amendment 60, in schedule 7, page 215, line 8, after "may" insert ", subject to subsection (7A),".

See Amendment 59.

Amendment 61, in schedule 7, page 215, line 24, at end insert "or".

This amendment makes a minor technical correction to the release condition in inserted section 303Z51(7) of the Proceeds of Crime Act 2002.

Amendment 62, in schedule 7, page 215, line 29, at end insert—

"(7A) If an application under section 303Z41 is made for the forfeiture of the cryptoassets, the cryptoassets are not to be released under this section until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded."

See Amendment 59.

Amendment 63, in schedule 7, page 226, line 18, after "cryptoassets" insert—

", or of property which they represent,".

This amendment amends inserted section 303Z63 of the Proceeds of Crime Act 2002 (converted cryptoassets: victims and other owners) to provide that the condition in subsection (5)(a) of that section is met where the applicant was deprived of cryptoassets or of property which those cryptoassets represent.

Amendment 64, in schedule 7, page 227, leave out lines 1 to 5 and insert—

"(a) if the conditions in this Chapter for the detention of the converted cryptoassets are no longer met, or".

This amendment amends the release condition in inserted section 303Z63(8) of the Proceeds of Crime Act 2002 (converted cryptoassets: victims and other owners) to provide that the release condition is met where the court is satisfied that the conditions in Chapter 3F of Part 5 of that Act for detention of the converted cryptoassets are no longer met.

Amendment 156, in schedule 7, page 230, line 22, at end insert—

"*Amendments to the Proceeds of Crime Act 2002*

1A In section 2C(3A) of the Proceeds of Crime Act 2002 (prosecuting authorities), for 'or 303Z19' substitute ', 303Z19, 303Z53 or 303Z65'.

1B (1) Part 2 of the Proceeds of Crime Act 2002 (confiscation: England and Wales) is amended as follows.

(2) In section 7 (recoverable amount)—

(a) in subsection (4)(c), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (4)(d), after '303Q(1)' insert 'or 303Z44(1)'.

(3) In section 82 (free property)—

(a) in subsection (2)—

(i) in paragraph (ea), for 'or 10Z2(3)' substitute ', 10Z2(3), 10Z7AG(1), 10Z7BB(2), 10Z7CA(3), 10Z7CE(3) or 10Z7DG(3)';

(ii) in paragraph (f), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z32(1), 303Z37(2), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (3)—

(i) after paragraph (b) insert—

(ii) in paragraph (c), after '303Q(1)' insert 'or 303Z44(1)';

(iii) after paragraph (e) insert—

(iv) in paragraph (f), after '10I(1)' insert 'or 10Z7CD(1)'.

1C (1) Part 3 of the Proceeds of Crime Act 2002 (confiscation: Scotland) is amended as follows.

(2) In section 93 (recoverable amount)—

(a) in subsection (4)(c), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (4)(d), after '303Q(1)' insert 'or 303Z44(1)'.

(3) In section 148 (free property)—

(a) in subsection (2)—

(i) in paragraph (ea), for 'or 10Z2(3)' substitute ', 10Z2(3), 10Z7AG(1), 10Z7BB(2), 10Z7CA(3), 10Z7CE(3) or 10Z7DG(3)';

(ii) in paragraph (f), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z32(1), 303Z37(2), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (3)—

(i) after paragraph (b) insert—

(ii) in paragraph (c), after '303Q(1)' insert 'or 303Z44(1)';

(iii) after paragraph (e) insert—

(iv) in paragraph (f), after '10I(1)' insert 'or 10Z7CD(1)'.

1D (1) Part 4 of the Proceeds of Crime Act 2002 (confiscation: Northern Ireland) is amended as follows.

(2) In section 157 (recoverable amount)—

(a) in subsection (4)(c), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (4)(d), after '303Q(1)' insert 'or 303Z44(1)'.

(3) In section 230 (free property)—

(a) in subsection (2)—

(i) in paragraph (ea), for 'or 10Z2(3)' substitute ', 10Z2(3), 10Z7AG(1), 10Z7BB(2), 10Z7CA(3), 10Z7CE(3) or 10Z7DG(3)';

(ii) in paragraph (f), for 'or 303Z14(4)' substitute ', 303Z14(4), 303Z32(1), 303Z37(2), 303Z41(4), 303Z45(3) or 303Z60(4)';

(b) in subsection (3)—

(i) after paragraph (b) insert—

(ii) in paragraph (c), after '303Q(1)' insert 'or 303Z44(1)';

(iii) after paragraph (e) insert—

(iv) in paragraph (f), after '10I(1)' insert 'or 10Z7CD(1)'."

This amendment contains consequential and other amendments to Parts 1 to 4 of the Proceeds of Crime Act 2002 in relation to the civil recovery of cryptoassets.

Amendment 157, in schedule 7, page 230, line 24, at end insert—

"(1A) In section 278 (limit on recovery)—

(a) in subsection (7)(a), for 'or 303Z14' substitute ', 303Z14, 303Z41, 303Z45 or 303Z60';

(b) after subsection (7A) insert—

'(7B) If—

(a) an order is made under section 303Z44 instead of an order being made under section 303Z41 for the forfeiture of recoverable property, and

(b) the enforcement authority subsequently seeks a recovery order in respect of related property,

the order under section 303Z44 is to be treated for the purposes of this section as if it were a recovery order obtained by the enforcement authority in respect of the property that was the forfeitable property in relation to the order under section 303Z44.'"

This amendment contains a consequential amendment to section 278 of the Proceeds of Crime Act 2002 in relation to forfeited cryptoassets.

Amendment 65, in schedule 7, page 231, line 3, after "may" insert ", subject to subsection (7A),".

This amendment and Amendments 66 and 67 amend inserted section 303Z17A of the Proceeds of Crime Act 2002 to provide that money may not be released under that section while forfeiture proceedings are ongoing in respect of the money.

Amendment 66, in schedule 7, page 231, line 13, after "may" insert ", subject to subsection (7A),".

See Amendment 65.

Amendment 67, in schedule 7, page 231, leave out lines 25 to 36 and insert—

"(7) The release condition is met—

(a) in relation to money held in a frozen account, if the conditions for making an order under section 303Z3 in relation to the money are no longer met, or

(b) in relation to money held in a frozen account which is subject to an application for forfeiture under section 303Z14, if the court or sheriff decides not to make an order under that section in relation to the money.

(7A) Money is not to be released under this section—

(a) if an account forfeiture notice under section 303Z9 is given in respect of the money, until any proceedings in pursuance of the notice (including any proceedings on appeal) are concluded;

(b) if an application for its forfeiture under section 303Z14 is made, until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded."

See Amendment 65. This amendment also replaces the release condition in inserted section 303Z17A(7) of the Proceeds of Crime Act 2002 to include changes for consistency with equivalent provisions in Part 5 of that Act.

Amendment 158, in schedule 7, page 235, line 5, at end insert—

"(20A) In section 386 (production orders: supplementary), in subsection (3)(b), for 'or a frozen funds investigation' substitute ', a frozen funds investigation or a cryptoasset investigation'."

This amendment contains a consequential amendment to section 386 of the Proceeds of Crime Act 2002 in relation to production orders and cryptoasset investigations.

Amendment 159, in schedule 7, page 236, line 11, at end insert—

"(30) In section 416 (other interpretative provisions), in subsection (1), after the entry for 'confiscation investigation' insert—

'cryptoasset investigation: section 341(3D)'."

This amendment contains a consequential amendment to section 416 of the Proceeds of Crime Act 2002 in relation to the meaning of "cryptoasset investigation" in Part 8 of that Act.

Amendment 160, in schedule 7, page 236, line 11, at end insert—

"3A In section 438 of the Proceeds of Crime Act 2002 (disclosure of information by certain authorities), in subsection (1)(f), for 'or 3B' substitute ', 3B, 3C, 3D, 3E or 3F'.

3B In section 441 of the Proceeds of Crime Act 2002 (disclosure of information by Lord Advocate and by Scottish Ministers)—

(a) in subsection (1), for 'or 3A' substitute ', 3A, 3C or 3F';

(b) in subsection (2)(g), for 'or 3B' substitute ', 3B, 3C, 3D, 3E or 3F'.

3C In section 450 of the Proceeds of Crime Act 2002 (pseudonyms: Scotland), in subsection (1)(a), for 'or a frozen funds investigation' substitute ', a frozen funds investigation or a cryptoasset investigation'.

3D In section 453A of the Proceeds of Crime Act 2002 (certain offences in relation to financial investigators), in subsection (5), at the end of paragraph (dc) (before the 'or') insert—

'(dd) section 303Z21 (powers to search for cryptoasset-related items);

(de) section 303Z26 (powers to seize cryptoasset-related items);

(df) section 303Z27 (powers to detain cryptoasset-related items);'."

This amendment contains consequential amendments to Parts 10 and 12 of the Proceeds of Crime Act 2002. The amendments relate to the disclosure of information obtained during cryptoasset investigations, the use of pseudonyms during such investigations and offences against accredited financial investigators exercising powers in connection with such investigations.

Amendment 161, in schedule 7, page 236, line 21, at end insert—

"*Amendments to the Civil Jurisdiction and Judgments Act 1982*

5 (1) Section 18 of the Civil Jurisdiction and Judgments Act 1982 (enforcement of UK judgments in other parts of UK) is amended as follows.

(2) In subsection (2)(g), for 'or a frozen funds investigation' substitute ', a frozen funds investigation or a cryptoasset investigation'.

(3) In subsection (4ZB)—

(a) after paragraph (b) insert—

'(ba) a crypto wallet freezing order made under section 303Z37 of that Act;

(bb) an order for the forfeiture of cryptoassets made under section 303Z41 or 303Z45 of that Act;';

(b) after paragraph (d) insert—

'(da) a crypto wallet freezing order made under paragraph 10Z7BB of that Schedule;

(db) an order for the forfeiture of cryptoassets made under paragraph 10Z7CA or 10Z7CE of that Schedule.'

(4) In subsection (5)(d)(i)—

(a) after '(a)' insert ', (ba)';

(b) for 'or (c)' substitute ', (c) or (da)'."—*(Tom Tugendhat.)*

This amendment amends the Civil Jurisdiction and Judgments Act 1982 to include provision about the enforcement of certain cryptoasset-related orders in different parts of the UK.

Schedule 7, as amended, agreed to.

Clause 143

Money laundering: exiting and paying away exemptions

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 144 stand part.

Tom Tugendhat: In a most unusual role, I shall start this time. Clauses 143 and 144 expand the types of case in which businesses can deal with clients' property without first having to submit a defence against money laundering suspicious activity report—a so-called DAML. The changes will reduce nugatory regulatory burdens on businesses and help focus private sector and law enforcement resources on proactive, high-value activity, while removing disproportionate delays to businesses and customers.

A DAML effectively freezes a transaction until the UK Financial Intelligence Unit in the National Crime Agency—the UKFIU—decides to provide consent for the transaction to go ahead. Alternatively, the UKFIU could refuse it and pursue further investigation. If the UKFIU does not respond within seven working days, the business can assume that they have consent and proceed with the transaction. That means businesses regularly waiting seven working days before being able to proceed with a transaction. Businesses cannot inform customers that the delay is due to a DAML, as doing so may amount to a criminal offence.

The volume of DAMLs submitted by businesses to the UKFIU rose by 80% to 62,341 in the last year that data was available, which is creating a disproportionate burden on staff in the regulated sector, as well as in the

NCA and wider law enforcement. The clauses will ensure that we are taking action to handle those rising volumes and that the DAML reporting system is used proportionally.

The exemption created by clause 143 will apply when a business in the anti-money laundering regulated sector ends a relationship with a customer and pays away any money or property suspected to be the proceeds of criminal conduct. The clause enables the business to pay back money or property under the value of £1,000 without first submitting a defence against money laundering suspicious activity report to the UKFIU and without committing a money laundering offence.

DAMLs below £1,000 are of limited value to law enforcement. That is because £1,000 is the minimum amount for law enforcement to pursue an account freezing order under the civil recovery provisions, and because of the need to prioritise higher volume cases. As a result, DAMLs below £1,000 are rarely refused consent by the UKFIU, but they place a burden on reporters to submit.

The exemption created by clause 144 will apply when a person carrying out business in the anti-money laundering regulated sector suspects that only part of their customer's property is the proceeds of criminal conduct. The clause enables the business to allow the customer access to their property without the business committing one of the principal money laundering offences or first submitting a defence against money laundering suspicious activity report. This is provided that the conditions of the exemption are met, including the condition that, as a minimum, the value of the suspected criminal property in the account is withheld when allowing a customer access to their funds.

10 am

The Chair: Thank you, Minister. It is not unusual to start when your name is on the clause.

Stephen Kinnock: According to the Government's impact assessment, the purpose of clauses 143 and 144, which expand the scope of exemptions from money laundering offences, is to reduce the number of ineffective defence against money laundering reports submitted to the NCA's financial intelligence unit. It is worth bearing in mind that the purpose of the reporting system is to enable regulated firms to notify the FIU when they are asked by a client to make a financial transaction that may amount to a money laundering offence. The FIU has seven days to review the report, and if it turns out that there is a connection to money laundering, it can ensure that appropriate enforcement action is taken.

The reports can, and often do, serve as a valuable means of identifying criminal activity. The Government's wish to reduce the number of DAML reports is understandable, but we must not throw the baby out with the bathwater. It is important for the Minister to explain to the Committee how those measures are sufficiently targeted that they reduce the number of unnecessary or unhelpful reports without causing a similar reduction in reports that might help to identify serious crime.

Clauses 143 and 144 provide exemptions from money laundering offences for certain transactions involving property worth less than £1,000, and in cases where some but not all of a client's assets may involve criminal funds. I would be grateful if the Minister would explain the Government's reasoning in setting the relevant thresholds at the specific levels provided for in those clauses.

I want to touch on a couple of broader points. The Government are right that the SARs process is in need of considerable reform. There are many steps the Government could take to improve the quality of reporting in addition to the measures set out in those clauses. For instance, the Solicitors Regulation Authority published a report last month in which it noted that, in two thirds of the reports it reviewed, the firms making the report did not include the glossary codes that enable the NCA to triage reports effectively and ensure an appropriate enforcement response. Additionally, the SRA found that as many as a quarter of the DAML reports it reviewed failed even to describe the criminal conduct that was suspected. Those findings are clear evidence that many law firms do not have an adequate level of understanding of the laws they are expected to help enforce. The same may well be true in other regulated sectors.

Will the Minister set out what steps the Government are taking to ensure that regulated firms have a better understanding of their obligations under the law, and how official guidance might be improved to help firms to submit better quality reports? I point out that significant improvements could be made to the speed and efficiency of the SARs process by making use of new and emerging technologies. If the FIU could use more cutting-edge software applications and algorithms to help identify the most serious crimes, it would go a long way towards addressing the problems that the Government seek to tackle. Perhaps the Minister might comment on the Government's work in that area.

Tom Tugendhat: I am delighted to respond to that. The rising volume of DAMLs being submitted has already had an impact on effectiveness. That is welcome, in that businesses are taking their responsibilities extremely seriously, and the UKFIU is responding appropriately when it receives them. Although, as the hon. Member quite rightly says, technology can help, the reality is that there is still an awful lot of work to be done. That is why these provisions are so reasonable.

The provisions are reasonable because property or criminal funds worth less than £1,000 are already exempt from asset seizures in different circumstances. It makes absolute sense to have a restriction on that in the Bill and apply the same threshold to allow the UKFIU to target, as much as possible, those serious money laundering accusations and investigations appropriately—and, indeed, to arrest more criminals.

Stephen Kinnock: I thank the Minister for that response. Would he care to comment on the feedback from the Solicitors Regulation Authority, which points particularly at the fact that many of the firms doing the reports were not including key information such as glossary codes and sometimes did not even describe the criminal conduct that they suspected? Is there something more that could be done so that the information at source was in a better state? Does he think that the feedback from the SRA could be a good basis on which to achieve that?

Tom Tugendhat: I am sure that having data at source in as clean and fluent a fashion as possible, so that it is complete and allows investigation, is absolutely essential. I am sure that solicitors will feel the responsibility to do that. I am grateful to the hon. Gentleman for raising that point.

[Tom Tugendhat]

Question put and agreed to.

Clause 143 accordingly ordered to stand part of the Bill.

Clause 144 ordered to stand part of the Bill.

Clause 145

INFORMATION ORDERS: MONEY LAUNDERING

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss clause 146 stand part.

Tom Tugendhat: Clause 145 amends the existing information order power in the Proceeds of Crime Act 2002 to bolster the UKFIU intelligence-gathering powers. Clause 146 addresses a gap in counter-terrorism legislation by mirroring those in the Terrorism Act 2000. The clauses will align the UKFIU more closely with the international standards of the Financial Action Task Force, known as FATF—including to me, actually—and enable greater collaboration with international financial intelligence units. That aids public safety in the UK and overseas, and furthers the UK's efforts to combat illicit financial flows entering the UK economy.

FATF is the international body devoted to developing and promoting policies to combat money laundering and terrorist financing. As a member, the UK agrees to promote FATF's anti-money laundering standards, which are expressed in the form of recommendations. FATF, the global money laundering and terrorist financing watchdog, evaluated the UK in 2018 and rated it only "partially compliant". That rating was affected by the UKFIU's limited ability to conduct operational strategic analysis in cases where a business has not already submitted a suspicious activity report.

Clause 145 amends the existing information order power by removing the requirement for a preceding suspicious activity report, or SAR, before an application can be made to a magistrates or sheriff court. Clause 146 mirrors that for counter-terrorism legislation. The information order will compel business in the anti-money laundering regulated and terrorist financing regulated sectors to provide information about a customer or client. That information will enable the UKFIU to conduct its operational strategic analysis functions by proactively gathering financial intelligence rather than relying on the reporting sector to have submitted information already. Further, the clauses will enable the UKFIU to better assist international counterparts to gather information, for example, relating to sanctions evasion and maximising the effort to prevent terrorist finances from entering the UK's economy.

The information sought under an information order is designed for intelligence purposes only. To ensure the power is used appropriately, a code of practice must be made by the Secretary of State. The person making the application must have had regard to the code of practice when applying to the court for an information order. The measure has been developed collaboratively with the UKFIU.

Stephen Kinnock: I thank the Minister for including the provisions in the Bill, which should make it easier for the NCA to access the information that it needs to gather intelligence and conduct analysis of the range of threats that we face from money laundering and terrorist financing. The provisions in the clauses should also help to ensure that the UK is able to provide more effective assistance to law enforcement bodies in other countries in response to requests for information.

Given that so much economic crime is inherently an issue that cuts across international borders, it is absolutely right for the Government to do all that they can to enforce the law within our own borders and to help Governments in our partner countries overseas to do the same.

Question put and agreed to.

Clause 145 accordingly ordered to stand part of the Bill.

Clause 146 ordered to stand part of the Bill.

Clause 147

ENHANCED DUE DILIGENCE: DESIGNATION OF HIGH-RISK COUNTRIES

Question proposed, That the clause stand part of the Bill.

Tom Tugendhat: The clause amends the Sanctions and Anti-Money Laundering Act 2018 to allow the Treasury to directly publish and amend the UK's high-risk third countries list on gov.uk.

Under the 2017 money laundering regulations, businesses are required to conduct enhanced checks on business relationships and transactions with high-risk third countries. High-risk third countries are those identified by the Financial Action Task Force as having poor controls and significant shortcomings in their anti-money laundering and counter-terrorist financing regimes.

Currently, a statutory instrument needs to be laid several times a year to update the UK's list each time the FATF's own list is amended. The clause will allow for more rapid updates to the list, helping the UK to be even more responsive to evolving money laundering threats by ensuring that risks are communicated and mitigated by the regulated sector as soon as possible. By removing the need to introduce legislation for each update, the change will also ease pressures on ministerial and parliamentary time, thereby responding to Parliament's call to streamline the process—very much like this Committee.

Stephen Kinnock: Clause 147 raises a number of concerns for us, which I hope the Minister will be able to address. It aims to change the procedure for updating the Treasury's list of countries designated as high risk due to serious deficiencies in their anti-money laundering and counter-terrorist financing systems, which was established by the Sanctions and Anti-Money Laundering Act 2018. The clause will enable the Treasury to update the list directly, without the need for regulations, in effect removing the opportunity for Parliament to scrutinise any changes to the list.

During the passage of the 2018 Act, there was cross-party consensus on the need for any UK list of designated high-risk countries to reflect international standards, primarily by mirroring the lists maintained by the Financial

Action Task Force. The problem with clause 147 is that it appears to enable the Treasury to make any future updates to the UK list, even in ways that diverge from the FATF lists, without any opportunity for Parliament to scrutinise or debate the proposals. Given the zeal for deregulation that we have often seen from the current Government, it takes no great stretch of the imagination to foresee a situation in which the Treasury determines that the FATF lists are unduly stringent and that certain countries and territories should be removed from the UK's list of high-risk countries, even in cases where issues identified by the FATF remain unresolved.

Looking at the relevant impact assessment, it seems that the intention is to enable Ministers to update the list "more swiftly" when needed, thus making the UK's list more "responsive" to emerging developments than is possible under the current system. But even if the aim is reasonable, the methods are questionable. For one thing, the 2018 Act stipulates that regulations updating the list of high-risk countries are subject to the affirmative procedure, under which Parliament is given the opportunity to retrospectively review changes that have already been made by the time the regulations are published. Together with the fact that updates are generally needed no more frequently than once every three months, this does not seem to place an undue burden on Ministers.

The changes made by clause 147 do not seem proportionate to any identifiable problem with the current system. The Opposition therefore strongly encourage the Minister and his colleagues to revisit the clause, on the basis that a convincing case for the need to remove Parliament's oversight of this process has not been made.

Dame Margaret Hodge (Barking) (Lab): I concur entirely with the remarks by my hon. Friend the Member for Aberavon, but I want to ask a couple of questions.

First, the Minister will know that we are considering how we can move from freezing the assets of people who are sanctioned to seizing them. One of the ways in which that could be facilitated, from the advice I have received from various non-governmental organisations and lawyers, is to have a sort of kleptocrats list. I wonder if he would take that idea away and, in considering the request for greater parliamentary oversight, look at whether we could designate particular jurisdictions as kleptocracies. All the advice I get indicates that that would make it easier to do the seizing as well as freezing. Of course, in relation to Ukraine, that would mean that some of the £18 billion that has been seized from Russia could be recommissioned and used to help us rebuild Ukraine.

10.15 am

Secondly, it is quite odd that Kazakhstan, for example, will not be on a list of high-risk countries, given everything we know about how that country is run by an elite. I am using figures from memory, but I think 150 people own over 50% of the country's wealth. That is money that has been robbed from the citizens of Kazakhstan. In those circumstances, I do not understand why that is not a high-risk country and how our relationship with that jurisdiction remains friendly. Going back to what my hon. Friend the Member for Aberavon said, therefore, I feel there needs to be parliamentary oversight of how we classify countries as high-risk countries—and, in my view, as kleptocracies. I do not understand how that is done by the Foreign Office at present.

Tom Tugendhat: The idea of a kleptocrats list is an interesting one. It is not one I have heard before. If the right hon. Lady will forgive me, I will look into it and respond to her in writing; I have not thought about the matter, so I will have to give it some thought.

The list of high-risk third countries is based on the FATF list, which, as the hon. Member for Aberavon knows, has provided the basis for all the statutory instruments that have passed with no objection or issue. This measure will not save much ministerial time, if any at all, but it will save parliamentary time. Given how hard-pressed Parliament is to debate so many issues, I think it is a reasonable provision. Given the alignment between the UK regime and the international FATF standards, that seems to be a pretty standard change.

On the question of debating other areas, there is often cause to debate other countries' inclusion or exclusion from such lists, and the Treasury, the Foreign Office and other Departments and organisations often have views. I am not sure this is the Bill in which to do that; this Bill is simply about correcting a slight bump in the road and speeding up the process.

The Chair: I call Neil Kinnock—I beg your pardon, Stephen. People used to do that to me and they always got it wrong.

Stephen Kinnock: Don't worry, Mr Paisley—we could probably exchange notes on that at great length.

I thank the Minister for those points. I recall his time as chair of the Foreign Affairs Committee, when he pushed relentlessly and convincingly for parliamentary scrutiny of a whole range of key issues and decisions. Given that parliamentary scrutiny was built into the 2018 Act, it seems difficult to justify its deliberate removal from the process by this Bill. It seems like it would be good to have those guard rails in place to avoid the risk of somebody in the Treasury deciding at some point that big decisions should be made without any parliamentary scrutiny at all. Does he not agree that this is a real missed opportunity?

Tom Tugendhat: No, I do not. I always found that when I wanted to get parliamentary scrutiny as Chair of a Committee, I managed to find ways to do that—often through debates, in which the hon. Gentleman was a wonderful speaker—and to change Government policy by using not only Parliament, but the media and other forms of pressure. There is a difference between seeking to change Government policy on various aspects of areas that should really be considered as wider policy, and seeking to implement these changes, which are, let us be honest, rather technical and not issues of major parliamentary debate.

Question put and agreed to.

Clause 147 accordingly ordered to stand part of the Bill.

Clause 148

Direct disclosures of information: no breach of obligation of confidence

Tom Tugendhat: I beg to move amendment 122, in clause 148, page 136, leave out lines 22 and 23 and insert—

[Tom Tugendhat]

"(1) The protections set out in subsection (1A) apply in relation to a disclosure made by a person ('A') to another person ('B') if—".

This amendment and Amendments 125 and 135 provide that disclosures mentioned in clause 148(1) do not give rise to any civil liability, on the part of the person making the disclosure, to the person to whom the information disclosed relates. There is an exception for liabilities under the data protection legislation.

The Chair: With this it will be convenient to discuss the following:

Government amendments 123 to 135.

Clause stand part.

Government amendments 136 to 142.

Amendment 167, in clause 149, page 138, line 8, at end insert—

"(vi) a firm or individual carrying on statutory audit work or local audit work,

(vii) an individual appointed to act as an insolvency practitioner,

(viii) a firm or sole practitioner providing to other persons accountancy services, or providing material aid, or assistance or advice, in connection with the tax affairs of other persons, or

(ix) an auditor, external accountant or insolvency practitioner as defined in Section 11 of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017."

This amendment includes accountants in various roles in the indirect information sharing provisions set out in clause 149, allowing them to pass on information regarding suspicious activity.

Government amendments 143 to 152.

Clauses 149 to 152 stand part.

Government amendments 153 to 155.

Clause 153 stand part.

That schedule 8 be the Eighth schedule to the Bill.

Tom Tugendhat: Large amounts of financial data flow through the United Kingdom every hour. The majority relate to entirely legitimate and proper activity; however, a small proportion involve criminal activity. As hon. Members heard from several witnesses to the Committee, the sharing of information regarding criminal activity between businesses is currently constrained by duties of confidentiality. These clauses and the associated Government amendments address that constraint.

Clause 148 enables direct disclosure of information between two businesses in the anti-money laundering regulated sector for the purposes of preventing, investigating and detecting economic crime, without a breach of their obligation of confidence to their customers.

Kevin Hollinrake: Hear, hear.

Tom Tugendhat: I am glad to have support from further down the Treasury Bench.

To request information, a business must have reason to believe that the other business holds information that will, or may, assist in carrying out its relevant actions. Relevant actions include deciding whether further customer due diligence is needed, restricting access to products, or terminating a business relationship with the customer as a result of the additional information obtained.

Amendments 122 to 135 amend clause 148 to expand the provisions to offer protection from civil liability owed by the person sharing information to the person to whom the disclosure relates. As the Committee heard when UK Finance gave evidence, the banking sector maintains that without greater protection, information is unlikely to be shared, as doing so creates limited benefit in comparison with the risk of potential protracted and expensive litigation from customers. Greater use of the provisions will make it harder for criminals to exploit UK businesses. We have listened to the sector and tabled these amendments.

Clause 149 enables indirect information sharing by certain businesses via a third-party intermediary, on a similar basis to elements of clause 148. A business may share information about a current or former customer whom they have already decided to take action against due to an economic crime risk—or who would have been subject to that decision were they still a customer—either by terminating a business relationship or by refusing or restricting access to a product or service. The business must be satisfied that sharing the customer's information will assist other businesses in carrying out their relevant actions. As with clause 148, the Government have tabled amendments 136 to 141 and 143 to 151 to disapply civil liability for a person who discloses such information.

Government amendments 142, 152 and 155 extend the scope of the indirect information-sharing provisions to cover large and very large accountancy and legal businesses. The benefit of bringing those businesses within the scope of the provision is that those firms have experience of dealing with high-risk clients. Criminals are known to exploit the information gaps that currently exist between businesses in these sectors, and encouraging further information sharing creates greater opportunities to prevent economic crime.

Clauses 148 and 149 do not disapply any liabilities arising under data protection legislation. The hon. Member for Feltham and Heston tabled amendment 167, which would expand clause 148 to include the accountancy sector. I hope that she is reassured that the Government amendments that I have just described achieve that objective.

Government amendments 153 and 154 make express provision for aiding, abetting, counselling and procuring in the definition of economic crime. Schedule 8 sets out the offences that are included in the definition of economic crime for the purposes of direct and indirect disclosures of information, the Law Society's fining powers, and the objectives of regulators of legal services. The schedule is divided into common-law and statutory offences. No new offences are created by the Bill; the schedule has been included because there is no existing relevant definition of economic crime. The schedule is essential to provide clarity and certainty about the meaning of economic crime, in order for individuals, regulators and businesses to use the disclosure of information provisions effectively and to properly apply the new measures relating to legal services.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Mr Paisley, and to speak to this rather large group. I thank the Minister for his comments, which I find reassuring. I will deliver my own remarks for the record, but his comments, particularly on our amendment 167, were helpful.

This important group of clauses and amendments relates to supporting disclosures to prevent, detect or investigate economic crime. The Minister is absolutely right about the concerns—raised by UK Finance specifically—that the clauses go a considerable way to addressing.

Clause 148 concerns direct disclosure of information and, as the Minister outlined, disapplies the duty of confidentiality owed by a business where the business making the disclosure knows the identity of the recipient and certain conditions—broadly outlined in subsection (1)—are met. The explanatory notes contain the example of a bank that identifies a transaction that it believes is irregular and wants further information from another party—perhaps more information on the identity of the payer or more clarity on the source of the funds. We understand why such information might be wanted and the importance of being able to get such clarity. In effect, clause 148, along with clause 149, about which I will say a few words separately, removes the civil liability for an institution in sharing that information with another entity for the purposes of detecting and preventing economic crime.

Given the concerns about the difficulties with information sharing, and the resistance that there has been to sharing information because of lack of clarity about the law or about where liability lies under data protection rules, these measures are welcome. They have perhaps taken longer to be introduced than we would have liked, but they are certainly welcome, and we hope that they will increase the detection of economic crime and reduce moves by those involved in it to seek to use our institutions to launder and hide money.

Although I welcome the removal of barriers to information sharing, I wonder whether the clauses give regulated sectors or actors so-called safe harbour as comprehensively as they might. Helena Wood of the Royal United Services Institute said in her evidence to the Committee:

"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"—

I think we are all hoping to see that soon; shortly is the word used in this Committee—

"is something 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." —[Official Report, Economic Crime and Corporate Transparency Public Bill Committee, 27 October 2022; c. 90, Q170.]

10.30 am

As a result, while we welcome and support the clause, there are questions about whether the Government may pursue more advanced models and rules around those models and data analytics.

Let me come back to a couple of questions, clarifications and concerns. The clauses do not highlight whether there is any time expectation for a person to respond to an information request. What if an innocent person were caught by the provisions? As well as the time taken, there may be some complexity in finding out information. Different financial institutions may have invested less in robust procedures; the information may not always be easily to hand. Is there any expectation of how quickly person A has to respond to the request by person B?

A reasonable scenario might arise involving somebody who is not guilty of economic crime. There might be a question of source of funds. It could be someone seeking a mortgage for the first time—it could be anything—and there may be a timeline to which they are subject. Sometimes, we have to test legislation on what would happen if an innocent was caught up in it. That could happen to anybody—I shall highlight an example from my constituency. It would be helpful to understand the speed of response required, particularly if there is an innocent involved and a reason for a more speedy transaction by person B with their customer.

Clause 149(2)(c) notes that

"due to concerns about the risk of economic crime, A has decided to—

(i) terminate a business relationship with the customer,

(ii) refuse the customer a product or service, or

(iii) restrict the customer's access to elements of a product or service".

We can fully understand that situation, particularly if there is a pronounced concern of risk, where there might be some threshold of evidence—a considerable amount of evidence—that there is economic crime taking place.

I raise the point about safeguards and redress where an innocent is caught by the provisions is because in the last few months I have had a constituent whose bank was concerned about some of the payments made into his account over a period of time. He had a very clear explanation for the payments. When I talked to him and explained why those transactions were picked up and how he had to explain them, the situation was clearer to him.

This person lives and works in my constituency, who had not done anything wrong. The transactions had a very clear explanation, but it was a very stressful situation, because the bank froze his assets completely, including the bank account from which he was paying the household bills, the mortgage, and that he was using to take cash out to buy food. His credit cards were also stopped. What does someone do in that situation? He was phoning the bank and not getting a clear answer, his bills were due to go out and he would default on them, and he had no idea what would happen next. It was incredibly stressful. The bank knew that I had been approached; it can sometimes help when a constituent approaches an MP knowing that they are prepared to support them to intervene, if the situation is not resolved and quickly moved forward through the customer complaints or concerns procedure. I had a letter ready to go and the bank knew that. It came back and said that it accepted the explanation and had gone through, in the process of a week to 10 days, to seek to check what my constituent had said. Without some protections from a Member of Parliament and the ability to raise or question concerns, what do people do?

I do not have the evidence for this, but I have concerns about how people from ethnic minorities or less conventional backgrounds and their word are treated, where those transactions are from people who are from other ethnic minorities. People do not always have a relationship with banking institutions, and this is a diversity question

as well. That situation got resolved, but what if it had not been? What if that person had then been in an incredibly difficult position of having their mortgage put at risk, and all the other questions, without a speedy resolution? These questions are important and serious. We must test legislation against the different scenarios—and what the expectations might be of financial institutions rightly and importantly sharing this information—but we must look at necessary safeguards for consumers, who may have an important need to question, redress or explanation, and where a procedure is needed to make clear the expectations and the timeline in which it should happen. I would grateful if the Minister can confirm if the Government have considered this, and whether there are some checks and balances for an innocent who may get caught up in this.

There can sometimes be concerns about the risk of economic crime where the customer is refused a product or service. I had a situation with an insurance policy where, due to some of the extra checks that there may be for Members of Parliament, the underwriter changed and their policy was different. I was suddenly seen as high risk, as a Member of Parliament, and due to my job the policy was terminated. I had to go and find another provider. It struck me as extremely odd when I found out that that had happened. I had been a customer for a long time, but the underwriter and policy had changed without clear explanation. I subsequently found out the reason from someone who generously told me when I phoned up; they did not know any great detail, but they said, "It says it is due to their occupation." Suddenly we realise how vulnerable someone can be, when they have no means of redress against decisions that can sometimes be made without explanation—the wording of the clause says

"due to concerns about risks of economic crime"—

without strengthening, to some extent, where there might be a threshold to do what we want the legislation to do without others being caught without some form of redress or ability to ask questions. I would be grateful if the Minister could address that in his response.

I will turn to the question of reactive versus proactive information sharing where there are genuine concerns, and being able to evidence those concerns about money laundering. Will the Minister clarify the "request" conditions and the "warning" conditions in clause 148(3) and (4) and the way to interpret them, as I was not fully clear about that? Clause 148(3) is fairly self-explanatory and says the response is reactive when, for example, person B approaches person A when they think there is information it would be helpful to share. Clause 148(4) says:

"The warning condition is that A, due to concerns about risks of economic crime, has decided to take safeguarding action (or would have decided to take such action but for the customer having ceased to be a customer of A)."

Can the Minister clarify the extent to which subsections (4) and (5) imply proactive information sharing? I was not clear how to interpret the use of those subsections in relation to "the warning condition."

I will not go into detail, but we support amendments 112, 115, 123, 124, 126 to 128, 130, 132 and 135 to clause 148. We are also discussing amendments 129, 131, 133 and 134.

We support Government amendments 136 and 152 to clause 149, which we support, and I will speak to amendment 167. Clause 149 focuses on the "indirect disclosure of information" where there is no breach of obligations of confidence and we welcome its introduction. I have raised concerns in relation to subsection (2) and the way some of the definitions around risk of economic crime can be helpfully used and interpreted.

In relation to amendment 167, the Minister alluded to including accountants in various roles in the indirect information sharing provisions set out in clause 149, allowing them to pass on information regarding suspicious activity. The Institute of Chartered Accountants in England and Wales has called for this provision and spoken about the importance of enabling accountants to share information with each other, in order to ensure people committing economic crimes are not able to continually do so by simply changing their accountant and restarting the process. On indirect information sharing provisions, amendment 167 includes

"a firm or individual carrying on statutory audit work or local audit work, an individual appointed to act as an insolvency practitioner, a firm or sole practitioner providing to other persons accountancy services, or providing material aid, or assistance or advice, in connection with the tax affairs of other persons, or an auditor, external accountant or insolvency practitioner as defined in Section 11 of The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017."

I am grateful to the Government for tabling amendments 137, 138, 140 to 142, 144 and 147. They extend clause 149 disclosures to apply in relation to persons with a large or very large UK revenue who carry out legal or accountancy services in the regulated sector. The amendments have the same principle as amendment 167, and the Minister has broadly said that he thinks they cover the same area, but I would be grateful if he specified whether the Government amendments would apply more detail about whom we are specifying in relation to information-sharing provisions, in order to provide assurances that the Government amendments will include all the various roles set out in amendment 167. If any are not covered, it is important to clarify that and for us to have a further debate about that.

10.45 am

I will make a few minor comments about the remaining clauses in this group. Clause 150 sets out the meaning of "privileged disclosure", which is also referred to in clauses 149(2)(g) and 148. It is helpful to define "privileged disclosure" as the

"disclosure of information made by a professional legal adviser or relevant professional adviser…where the information disclosed came to the adviser in privileged circumstances."

The Minister spoke to this, but I would be grateful if he clarified whether clause 150 would cater for all instances where information should be shared for the purposes of preventing or detecting economic crime.

Clause 151 defines the term "relevant actions", as set out in the early information-sharing provisions. Clause 152 defines the term "business relationship", which is referred to in clauses 148 and 149. I would welcome an assurance from the Minister that relevant stakeholders are included in the indirect information-sharing provisions, as set out in clause 149. It would be helpful to know whether there is any consultation on defining the term.

Clause 153 defines other terms used in clauses 148 and 149 regarding information sharing, including a definition of "economic crime", which refers to acts

that constitute offences, as listed in schedule 8. I would be grateful for the Minister's response to the few points that I have made about this group of clauses and amendments.

Tom Tugendhat: I am sorry to hear that the hon. Lady was considered a risk to public safety, a danger or a threat to the nation in any way. She is none of those things; she is a highly valued Member of this House and a friend to many of us. I can only imagine the unwisdom of whoever it was who decided to terminate a relationship with her. I hope that the decision is being reviewed and that the person is now enjoying a holiday on the Falkland Islands.

It is worth pointing out that the comparisons that this has with other jurisdictions should be looked at carefully. Not every jurisdiction has the same application of the ECHR, GDPR or various other constraints on sharing information and protecting privacy that the UK has. In the Netherlands, the transaction monitoring scheme has so far involved only the sharing of business data, so there are various different ways in which these applications are not exactly applicable. It is worth pointing out that, under the provisions, an individual's right to a basic bank account, as established by the Payment Accounts Regulations 2015, is unaffected.

That means that affected individuals will be able to continue to access basic accounts, providing their account is not being used or has not been used for criminal activity, or that maintaining the account would breach any other legal obligations under the money laundering regulations. Moreover, the clause stipulates that before information is shared about a customer, the sharer must have taken action against the customer, or would have if they were still a customer. As a result, no one will have information shared unless the bank has already decided to take action against them or would have decided to do so.

We do not foresee a significant increase in the number of new individuals being denied access to services. Certainly, the hon. Lady's comments about her constituent should be viewed in that context. However, if there are individual cases that she feels that I—or, indeed, my hon. Friend the Member for Thirsk and Malton—can help with, I would be very happy to look at them, as I am sure my hon. Friend would be as well.

The forms of redress that the hon. Lady raises are important. That is where going through the Information Commissioner's Office or the Financial Ombudsman Service, depending on the nature of the complaint, is important. She raised many other questions, and although I will not be able to get to them right now, I will be happy to write to her on some of those individual items.

Seema Malhotra: I thank the Minister for his comments. If he is happy to write to me, I would be grateful for that. Can I clarify whether that will also cover some of the questions I raised about the expected timing of sharing information and the procedures for those who may have been caught up inadvertently? Procedurally, we need to understand how they can be dealt with. Rather than Ministers having to deal with individual cases, we want a mechanism that will make the system work fairly.

Tom Tugendhat: The hon. Member is making a perfectly reasonable point. I agree, and I will write to her about those timings so they are clearly on the record and we understand what is being asked and what the expected timeframes are.

It is also worth saying that the warning condition is more active because a business has already taken or would have taken a decision where a person is a customer. That is different from the request condition, where it is sharing in response to a specific request. The two are not quite identical, but I hope that answers the hon. Lady's questions. I will write to her shortly.

Amendment 122 agreed to.

Amendments made: 123, in clause 148, page 136, line 24, leave out 'to which' and substitute 'in circumstances where'.

This amendment and Amendments 124, 126, 127, 128 and 130 extend the power to expand the kinds of business in relation to which the provision can apply, so that it can describe attributes of the person as well as the business.

Amendment 124, in clause 148, page 136, line 25, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 123.

Amendment 125, in clause 148, page 136, line 31, at end insert—

'(1A) The protections are that, subject to subsection (9), the disclosure does not—

(a) give rise to a breach of any obligation of confidence owed by A, or

(b) give rise to any civil liability, on the part of A, to the person to whom the disclosed information relates.'

See Member's explanatory statement for Amendment 122.

Amendment 126, in clause 148, page 136, line 32, leave out 'to'.

See Member's explanatory statement for Amendment 123.

Amendment 127, in clause 148, page 136, line 33, after '(a)' insert 'where the business carried on is'.

See Member's explanatory statement for Amendment 123.

Amendment 128, in clause 148, page 136, line 34, leave out 'business of a description prescribed' and insert 'in circumstances prescribed, in relation to the business or the person carrying it on,'.

See Member's explanatory statement for Amendment 123.

Amendment 129, in clause 148, page 137, line 12, leave out 'A' and insert 'The protections set out in subsection (7A) apply in relation to a'.

This amendment and Amendments 131, 133 and 135 provide that the disclosures mentioned in clause 148(7) do not give rise to any civil liability, on the part of the person making the disclosure, to the person to whom the information disclosed relates. There is an exception for liabilities under the data protection legislation.

Amendment 130, in clause 148, page 137, line 12, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 123.

Amendment 131, in clause 148, page 137, line 14, leave out from 'request' to 'R' in line 15 and insert 'if'.

See Member's explanatory statement for Amendment 129.

Amendment 132, in clause 148, page 137, line 16, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 123.

Amendment 133, in clause 148, page 137, line 19, at end insert—

'(7A) The protections are that, subject to subsection (9), the disclosure does not—

(a) give rise to a breach of any obligation of confidence owed by R, or

(b) give rise to any civil liability, on the part of R, to the person to whom the disclosed information relates.'

See Member's explanatory statement for Amendment 129.

Amendment 134, in clause 148, page 137, line 22, leave out from 'applies,' to the end of line 23 and insert 'does not—

(a) give rise to a breach of any obligation of confidence owed by them, or

(b) give rise to any civil liability, on the part of R, to the person to whom the disclosed information relates.

This is subject to subsection (9).'

This amendment and Amendment 135 provide that use of information disclosed under clause 148(7) to enable a clause 148(1) disclosure to be made does not give rise to any a civil liability, on the part of the person making use of the information, to the person to whom the information relates. There is an exception for liabilities under the data protection legislation.

Amendment 135, in clause 148, page 137, line 25, after 'contravene' insert ', or prevents any civil liability arising under,'.—*(Tom Tugendhat.)*

See Member's explanatory statement for Amendments 122, 129 and 134.

Clause 148, as amended, ordered to stand part of the Bill.

Clause 149

INDIRECT DISCLOSURE OF INFORMATION: NO BREACH OF OBLIGATION OF CONFIDENCE

Amendments made: 136, in clause 149, page 137, leave out lines 27 to 29 and insert—

'(1) The protections set out in subsection (2A) apply in relation to a disclosure made by a person ("A") to another person ("B") if—'.

This amendment and Amendments 139 and 151 provide that the disclosures mentioned in clause 149(1) do not give rise to a civil liability on the part of the person making the disclosure, to the person to whom the information disclosed relates. There is an exception for liabilities under the data protection legislation.

Amendment 137, in clause 149, page 137, line 30, leave out 'to which' and substitute 'in circumstances where'.

This amendment and Amendments 138, 140, 141, 142, 144 and 147 extend clause 149 disclosures so they apply in relation to persons with a large or very large UK revenue who carry on legal or accountancy services in the regulated sector.

Amendment 138, in clause 149, page 137, line 39, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 137.

Amendment 139, in clause 149, page 138, line 1, at end insert—

'(2A) The protections are that, subject to subsection (9), the disclosure does not—

(a) give rise to a breach of any obligation of confidence owed by A, or

(b) give rise to any civil liability, on the part of A, to the person to whom the disclosed information relates.'

See Member's explanatory statement for Amendment 136.

Amendment 140, in clause 149, page 138, line 2, leave out 'to'.

See Member's explanatory statement for Amendment 137.

Amendment 141, in clause 149, page 138, line 3, after '(a)' insert 'where the business carried on is'.

See Member's explanatory statement for Amendment 137.

Amendment 142, in clause 149, page 138, line 8, leave out from 'provider,' to 'by regulations' in line 9 and insert—

'(aa) where—

(i) the business carried on is business in the regulated sector within paragraph 1(1)(l) or (n) of Schedule 9 to the Proceeds of Crime Act 2002 (accountancy or legal services), and

(ii) the UK revenue of the person carrying on the business is large or very large for the relevant financial year (see subsection (10)), and

(b) in circumstances prescribed, in relation to the business or the person carrying it on,'.

See Member's explanatory statement for Amendment 137.

Amendment 143, in clause 149, page 138, line 11, leave out from 'to B,' to end of line 14 and insert

'the protections set out in subsection (5A) apply in relation to a further disclosure of that information made by B to another person ("C") if—'.

This amendment and Amendments 145 and 151 provide that the disclosures mentioned in clause 149(4) do not give rise to a civil liability, on the part of the person making the disclosure, to the person to whom the information disclosed relate. There is an exception for liabilities under the data protection legislation.

Amendment 144, in clause 149, page 138, line 15, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 137.

Amendment 145, in clause 149, page 138, line 18, at end insert—

'(5A) The protections are that, subject to subsection (9), the disclosure does not—

(a) give rise to a breach of any obligation of confidence owed by B, or

(b) give rise to any civil liability, on the part of B, to the person to whom the disclosed information relates.'

See Member's explanatory statement for Amendment 143.

Amendment 146, in clause 149, page 138, line 22, leave out 'A' and insert

'The protections set out in subsection (7A) apply in relation to a'.

This amendment and Amendments 148, 149 and 151 provide that the disclosures mentioned in clause 149(7) do not give rise to a civil liability, on the part of the person making the disclosure, to the person to whom the information disclosed relates. There is an exception for liabilities under the data protection legislation.

Amendment 147, in clause 149, page 138, line 22, leave out 'to which' and substitute 'in circumstances where'.

See Member's explanatory statement for Amendment 137.

Amendment 148, in clause 149, page 138, line 24, leave out from 'person' to 'at' in line 25 and insert 'if'.

See Member's explanatory statement for Amendment 146.

Amendment 149, in clause 149, page 138, line 28, at end insert—

'(7A) The protections are that, subject to subsection (9), the disclosure does not—

(a) give rise to a breach of any obligation of confidence owed by R, or

(b) give rise to any civil liability, on the part of R, to the person to whom the disclosed information relates.'

See Member's explanatory statement for Amendment 146.

Amendment 150, in clause 149, page 138, line 31, leave out from 'applies,' to end of line 32 and insert 'does not—

(a) give rise to a breach of any obligation of confidence owed by them, or

(b) give rise to any civil liability, on their part, to the person to whom the disclosed information relates.

This is subject to subsection (9).'

This amendment and Amendment 151 provide that the use of information disclosure under clause 149(7) for the purposes of making a disclosure under clause 149(1) does not give rise to a civil liability, on the part of the person making use of the information, to the person to whom the information relates. There is an exception for liabilities under the data protection legislation.

Amendment 151, in clause 149, page 138, line 34, after 'contravene' insert ', or prevents any civil liability arising under,'.

See Member's explanatory statements for Amendments 136, 143, 146 and 150.

Amendment 152, in clause 149, page 138, line 34, at end insert—

'(10) In subsection (3)(aa) "relevant financial year"—

(a) for the purposes of subsection (1)(a), means the financial year immediately preceding that in which the disclosure by A is made;

(b) for the purposes of subsection (4)(a), means the financial year immediately preceding that in which the disclosure to C is made.

And, for the purposes of subsection (3)(aa), the question of whether a person's UK revenue is large or very large for a particular financial year is to be determined in accordance with sections 55 to 57 of the Finance Act 2022 (calculation of UK revenue for the economic crime (anti-money laundering) levy).'—(*Tom Tugendhat.*)

This amendment include a definition of "relevant financial year" and explains how to determine if a person's UK revenue is large or very large for the purposes of the new provision added by Amendment 142.

Clause 149, as amended, ordered to stand part of the Bill.

Clauses 150 to 152 ordered to stand part of the Bill.

Clause 153

OTHER DEFINED TERMS IN SECTIONS 148 TO 151

Amendments made: 153, in clause 153, page 140, line 19, at end insert—

"(ba) constitutes aiding, abetting, counselling or procuring the commission of a listed offence, or".

The amendment makes express provision about aiding, abetting, counselling and procuring in the definition of economic crime.

Amendment 154, in clause 153, page 140, line 21, after "(b)" insert "or (ba)".

This amendment is consequential on Amendment 153.

Amendment 155, in clause 153, page 140, line 34, at end insert—

""financial year" means a period of 12 months ending with 31 March;".—(*Tom Tugendhat.*)

This amendment adds a definition of "financial year" and is consequential on Amendment 152.

Clause 153, as amended, ordered to stand part of the Bill.

Schedule 8 agreed to.

Clause 154

LAW SOCIETY: POWERS TO FINE IN CASES RELATING TO ECONOMIC CRIME

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to discuss the following:

Clause 155 stand part.

Government new clause 47—*Scottish Solicitors' Discipline Tribunal: powers to fine in cases relating to economic crime.*

Tom Tugendhat: His Majesty's Government's national risk assessment for 2020 assessed the legal services sector as being at high risk of exposure to money laundering. The crisis in Ukraine has highlighted that the sector is exposed to further-reaching risks, such as sanctions breaches. The Bill therefore contains measures that strengthen the legal sector's response to economic crime.

Clause 154 removes the statutory limit on the Solicitors Regulation Authority's financial penalty powers for disciplinary matters related to economic crime, as delegated by the Law Society. Currently, the SRA can direct a solicitor or traditional law firm to pay a penalty up to £25,000. The limit is set out in primary legislation and can be amended only by an order made by the Lord Chancellor. This measure will remove the need for the Lord Chancellor to make an order, thereby ensuring greater flexibility to, if required, amend penalty limits for disciplinary matters relating to economic crime.

New clause 47 gives the Scottish Solicitors' Discipline Tribunal parity with England and Wales in respect of the fining powers available to it for economic crime-related solicitor misconduct. Currently, the SSDT may impose a maximum fine of £10,000. In comparison, the equivalent tribunal in England and Wales—the Solicitors Disciplinary Tribunal—has the power to impose an unlimited financial penalty. This change will provide the SSDT with fining powers that act as a proportionate deterrent against breaches of the rules and legislation related to economic crime, including offences linked to money laundering, terrorist financing and sanctions. The exercise of this power will be subject to the oversight of the Court of Session to ensure that the SSDT acts in an effective and proportionate way. The changes sought in clause 154 and new clause 47 are needed to ensure that the SRA and the SSDT have the enforcement tools required in the context of economic crime compliance.

Clause 155 enshrines in legislation the duty of legal services regulators to promote the prevention and detection of economic crime. Our legal sector is internationally renowned for its high standards of excellence and professional conduct. The vast majority of the sector is compliant with its economic crime duties. However, it is crucial that regulators have the right tools to effectively promote and monitor compliance. The clause puts it beyond doubt that it is the duty of legal services regulators to take appropriate action to ensure that their regulated communities comply with economic crime rules. It will give frontline regulators a clear basis for any supervision or enforcement action they may carry out to uphold the economic crime regime.

11 am

Stephen Kinnock: Clause 154 would lift the current statutory cap on the penalties that may be imposed by the Solicitors Regulation Authority, as delegated by the Law Society, for breaches of the law on economic crime. I am sure that Members on both sides will welcome the change if, as the Government argue in their impact assessment, it increases the deterrent effect of the financial penalties that may be levied for disciplinary matters. Although the Government provide limited evidence to support that claim, it is at least a reasonably logical conclusion.

[Stephen Kinnock]

However, the proposals raise a number of questions, principally around the degree to which clauses 154 and 155 reflect the input received from the sector in response to consultation earlier this year. Specifically, a number of serious concerns were expressed by the Solicitors Disciplinary Tribunal when the SRA consulted on planned increases to its powers to impose fines.

The tribunal argued that the SRA's powers should be limited to imposing relatively low penalties for minor technical or administrative errors. It argued that increasing the maximum level of fines that the SRA could impose would erode transparency by preventing cases of serious misconduct from coming before a public hearing, which could also remove the scope for a detailed, publicly accessible explanation of any penalties, as is generally provided by the tribunal's decisions under the current system. In summarising its concern, the tribunal argued that the diminution in the transparency of decision making and detailed reason would be in neither the public's nor the profession's interest.

It should be noted that those objections were raised, not in response to the proposed changes set out in this Bill, but in the context of the increase in the maximum level of financial penalties that the SRA may impose from £2,000 to £25,000, which came into effect in July. That change in itself begs a number of questions. In particular, can the Minister explain how many and what proportion of the fines imposed by the SRA since July have been at the £25,000 maximum? Could it not be argued that the Government have not provided enough time for the effectiveness of recent changes to be adequately assessed?

Can the Minister also set out the Government's reasoning in lifting the cap on the SRA's fining powers, with specific regard to the objections raised by the Solicitors Disciplinary Tribunal, and other stakeholders, around the transparency of the process?

Clause 155 would amend the Legal Services Act 2007 to set an additional objective for regulators in the legal sector to prevent economic crime. Given the objections that have been raised in the sector relating to clause 154, I would be grateful if the Minister provided further details of any consultation between his Department and providers of legal services, as well as the Legal Services Board, on this proposal.

Finally, it would be helpful if the Minister explained the rationale for the decision to set out, in this Bill, an explicit objective to prevent economic crime for providers of legal services, but not for other sectors covered by the money laundering regulations. The impact assessment sheds limited light on the Government's thinking in this area, so any additional detail that the Minister could provide today would be welcome.

Alison Thewliss: My understanding is that the Law Society of Scotland has no particular objections to the amendments.

Tom Tugendhat: The hon. Member is asking about various of the different fining elements. Clearly, the fines discussion is a matter for the individual cases, and would be determined on a case-by-case basis, but I think that removing the cap, which, in modern terms, is actually relatively low—certainly, when compared with financial abuses and other forms of regulation—is entirely reasonable. The Solicitors Regulation Authority does not, in any way, have any power to strike off a suspended solicitor, so the SDT remains an extremely important part of the disciplinary process. There are various different aspects at play here, but the proposals make good sense and are reasonable. I will happily write to the hon. Member on the issue he raised separately and come back to him about it later.

Stephen Kinnock: I thank the Minister for that clarification, and I am grateful for his offer to write with further details. On the point about using the Bill to prevent economic crime with respect to providers of legal services, but not for any other sector covered by the money laundering regulation, would he care to shed more light on the rationale for that decision?

Tom Tugendhat: The other sectors are already covered by the money laundering regulation. That element is focusing on legal services because that was a lacuna in the law.

Stephen Kinnock: I thank the Minister for that clarification. There is a broader scope to economic crime, not just a specific focus on money laundering, and that covers a wider range of aspects of economic crime, although there is an explicit objective in the Bill that it is limited to providers of legal services. I wonder why that broader scope will not be applied beyond the money laundering concerns.

Tom Tugendhat: The changes are being made and the new clause is important for exactly the reasons the hon. Gentleman has highlighted. The new clause will remove an obstacle with respect to the SRA exercising its judgment and punishing appropriately those who might be committing any number of different crimes, which I hope they will not be doing. The measure will give us a provision to enable us to deal with that. The reality is that much of the money laundering regulation has already been covered, along with different aspects of financial services. The proposals specifically address legal services and particular aspects. They are an important addition, and I am happy to support them.

Question put and agreed to.

Clause 154 accordingly ordered to stand part of the Bill.

Clauses 155 to 157 ordered to stand part of the Bill.

Clause 158

POWER TO MAKE CONSEQUENTIAL PROVISION

Question proposed, That the clause stand part of the Bill.

Tom Tugendhat: I would have been pleased to speak to any of those clauses.

The Chair: The Minister did not indicate that he wanted to do so.

Tom Tugendhat: Let us go with clause 158, Mr Paisley.

The Chair: To be clear, we are debating clause 158 stand part.

Tom Tugendhat: Indeed, and I am delighted to be called to speak to it.

The clause provides the Secretary of State with the power to make consequential amendments that arise from the Bill. The power is necessary to ensure that other provisions on the statute book properly reflect and refer to the provisions in the Bill once it is enacted and to ensure that there are no legislative inconsistencies. If regulations are made under the clause that do not amend primary legislation, they will be subject to the negative resolution procedure. If regulations are made under the clause that amend primary legislation, they will be subject to the affirmative resolution procedure. This, I hope, will provide the appropriate parliamentary scrutiny.

Seema Malhotra: I thank the Minister for his comments. May I clarify the process, Mr Paisley? In previous sittings, during each clause stand part debate the Minister has been called followed by the Opposition spokesperson. Perhaps that has had some variation, but it would be helpful to understand whether we need to do anything differently.

The Chair: No, nothing at all; it is just that the Minister did not indicate that he wished to speak. Members can speak at that point. Those clauses have been dealt with.

Seema Malhotra: I think that there was a slight misunderstanding, but we will move on.

Clause 158 confers on the Secretary of State a regulation-making power to make consequential amendments that arise from the Bill. I want to raise a general point: the Minister did speak to this, but perhaps he could say a little more about examples of where the Secretary of State might need to use the power. Perhaps it is written somewhere, but I am not fully clear whether any changes that come through secondary legislation to the Act itself—I think that is a Henry VIII power in this clause—would be taken through the affirmative procedure.

It has been a general theme of debate though our proceedings that we need to make sure that there is sufficient provision for the transparency, scrutiny and accountability of changes, as well as for accountability of the Secretary of State's use of powers for the reporting that there should be on how well the provisions are working. The power to make consequential amendments comes at the end of the Bill in clause 158, but it is a Henry VIII power that means that amendments to primary legislation can be made. That is different from the power to make regulations under secondary legislation, which we have been debating.

The Government have said that the power is needed to ensure that other provisions on the statute book properly reflect and refer to provisions in the Bill once it is enacted. I want to be clear about what the scope of the use of this power would be, how it is intended and how it would be reported on. Would an affirmative or negative procedure be used to make any changes under this clause?

Dame Margaret Hodge: We have raised a number of amendments to the Bill during the course of consideration in Committee, many of which I consider to be technical and things that would improve the processes. All those amendments so far have been rejected. I wonder whether, rather than bringing us back at a later stage as the clause proposes, the Minister would undertake, together with his ministerial colleague, to look again at some of those amendments, which are really just practical, pragmatic amendments, with a view to bringing them back. Would he bring them back on Report?

Tom Tugendhat: I will answer the second question first, if I may. I am absolutely certain that my hon. Friend the Member for Thirsk and Malton and I will look with great interest at the suggestions that the right hon. Lady has made. As she knows, we share many similar ambitions. We will have a look at those suggestions with officials. Certainly, there are some that we think could improve the Bill—I do not think there is any great debate about that—and I will make sure that we keep her informed. Her contribution and help, not just today and on the Bill, have been enormous, and I pay enormous tribute to the work that she has done over many years in fighting money laundering and different forms of economic crime.

On this specific power, the hon. Member for Feltham and Heston raises a very important point, which is that the clause does give large consequential provision to the Government to change aspects of the Bill. I understand the concerns that she raises. The nature of the Bill, however, is that it has quite a consequential impact on other elements of legislation, as she herself has highlighted. Therefore there are knock-on elements that will no doubt require minor redrafting and changes at various different points as the Bill goes into law. I am afraid that is slightly the nature of these operations, as she understands extremely well. That is what this power is for.

It is worth saying that any significant or substantial changes that really do change the intent of the Bill should be brought back in primary legislation, because this is clearly a provision in order to enable the Bill to operate, not to change the intent that this House gives it.

Seema Malhotra: I thank the Minister for his comment, which puts that clarification on the record for successive generations of those who will sit in his seat—perhaps he will be promoted to higher office. It is important that that comment is on record, because we have to create legislation for not just today but tomorrow.

11.15 am

Question put and agreed to.

Clause 158 accordingly ordered to stand part of the Bill.

Clause 159

REGULATIONS

Tom Tugendhat: I beg to move amendment 43, in clause 159, page 144, line 21, at end insert—

> "(ba) regulations under section (registration of qualifying Scottish partnerships), unless they are regulations under that section that only make provision that corresponds or is similar to provision made or capable of being made by a statutory instrument that is itself subject to annulment in pursuance of a resolution of either House of Parliament;".

This provides for regulations under NC22 to be subject to the affirmative procedure unless they only make provision corresponding or similar to provision make by a statutory instrument that is itself subject to the negative procedure.

The Chair: With this it will be convenient to discuss Government new clause 22—*Registration of qualifying Scottish partnerships.*

Tom Tugendhat: Clause 159 provides that regulations made under the Bill are to be made by statutory instrument. The clause also sets outs the parliamentary procedure for how regulations under the Bill should be made, including situations in which legislation must be subject to the affirmative resolution procedure or the negative resolution procedure. The clause is a standard provision to enable regulations to give the intended effect to the measures in the Bill. It is necessary to ensure appropriate parliamentary scrutiny of such regulations.

Seema Malhotra: Clause 159 provides that regulations under the Bill are to be made by statutory instrument. To a large extent, we have had clarification that any subsequent changes will be made through the affirmative procedure in Parliament, enabling greater scrutiny and transparency over the Bill's implementation. I am not sure if there is a list anywhere of all the regulation-making powers that have been specified in the Bill. I feel like there is probably a summary somewhere of all of those powers, and whether any are subject to the negative procedure. I think that would be a helpful review for the Committee to have.

New clause 22 allows regulations to be made about the registration of certain Scottish partnerships, and to apply law related to companies or limited partnerships. It will allow the Scottish Partnerships (Register of People with Significant Control) Regulations 2017 to be amended or replaced in relation to those partnerships. We welcome the inclusion of amendment 43 alongside the new clause, which provides for regulations under new clause 22 to be subject to the affirmative procedure, unless they make provisions corresponding to provisions made by statutory instruments that are subject to the negative procedure. In light of my previous comments, I think it is healthy for us to clarify and have a clear summary of which are affirmative and which are negative, and the safeguards around them. That would ensure the transparency of regulation making subsequent to the passing of the Bill.

Kevin Hollinrake: It is a pleasure to speak with you in the Chair, Mr Paisley. I will speak briefly to amendment 43 and new clause 22, which are minor technical changes necessary due to the European Communities Act 1972 having been repealed. They give the Secretary of State the power to apply company or limited partnership law by regulations to Scottish qualifying partnerships, as well as to impose new requirements of Scottish qualifying partnerships not included in company or limited partnership law, such as identity verification. It allows the Government to retain the measures introduced by the Scottish Partnerships (Register of People with Significant Control) Regulations 2017 in relation to SQPs and to amend them in the future. Provisions about the registration of Scottish qualifying partnerships exist in the 2017 regulations, made using powers under now repealed section 2(2) of the European Communities Act 1972.

That has two consequences. First, there is no existing power to amend the regulations, other than by an Act of Parliament. Secondly, if not replaced under section 1 of the proposed retained EU law Bill, the 2017 regulations will be revoked at the end of 2023. This power will allow us to keep the existing requirements on Scottish qualifying partnerships and to add new ones. Without the amendment and new clause, it will not be possible to extend key measures introduced via the Bill, such as identity verification, to Scottish qualifying partnerships, thereby creating a dangerous loophole. I hope that my explanation has provided further clarity.

It is clear that regulations made under the Bill may make consequential, supplementary, incidental, transitional or saving provisions and regulations under specified clauses must be subject to the affirmative resolution procedure. I am sure we can write to the hon. Lady to set out exactly what those situations are.

Alison Thewliss: I am glad to see any loopholes getting closed, even if the amendment is sneaking in at the end of the Bill. It is good to see it. As I have said at many points in Committee, enforcement needs to be laid down on all these things, because at the moment all things to do with Scottish partnerships are not being enforced. People are not being fined for not complying with the regulations. I hope that it will result in some tightening up and some fines being issued—and, if required, in some people being jailed for not complying with the regulations as set out.

Tom Tugendhat: My hon. Friend the Under-Secretary has spoken to a lot of the issues, so I will just list clauses covered by the affirmative resolutions briefly—the others will be negative. That will include regulations under clauses 33, 35, 140(1), 141 and schedule 6, on powers to amend certain definitions relating to cryptoassets, clause 142 and schedule 7, on powers to amend certain definitions relating to cryptoassets and then clauses 143, 148, 149, 153 and 158. I am happy to write to the hon. Lady so that she has those details.

Amendment 43 agreed to.

Clause 159, as amended, 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

Sixteenth Sitting

Tuesday 22 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

Saturday 26 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 22 November 2022

(Afternoon)

[Julie Elliott *in the Chair*]

Economic Crime and Corporate Transparency Bill

2 pm

Clause 160

Extent

Question proposed, That the clause stand part of the Bill.

The Chair: With this it will be convenient to consider clauses 161 and 162 stand part.

The Minister for Security (Tom Tugendhat): It is nice to see you this afternoon, Ms Elliott. I look forward to proceeding in order for some parts of this afternoon sitting.

Clause 160 details the Bill's territorial extent. In preparing the Bill, both Ministers and officials have engaged extensively with their counterparts in the devolved Administrations to ensure that we tackle economic crime and strengthen corporate transparency across all of the United Kingdom. The measures in the Bill extend to England and Wales, Scotland, and Northern Ireland. Some of its provisions have a lesser extent, where they amend existing legislation that extends only to one or two different parts of the UK. In the opinion of the UK Government, the Bill makes some provision for areas within the devolved competence of Wales, Scotland and Northern Ireland. However, the Bill respects the devolution settlements and, where relevant, legislative consent motions are being sought from the devolved Administrations.

Clause 161 sets out procedural detail for the commencement of the Bill's provisions. It stipulates the various dates when, and conditions under which, the various sections and subsections will come into force. The Secretary of State can make regulations that set the date for certain provisions to come into force. Different days may be appointed for different purposes. The Secretary of State can also make transitional or savings provisions for regulations made under certain clauses, as set out in the Bill. Any regulations made under the clause are to be made by statutory instrument.

Clause 162 establishes that the title of the Bill once it becomes an Act will be the Economic Crime and Corporate Transparency Act. The short title is a standard clause in any Bill.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Ms Elliott.

I have a few limited remarks to make as we approach the end of clause-by-clause consideration and before we move on to new clauses. As the Minister said, clause 160 extends the Bill to England and Wales, Scotland, and Northern Ireland. I was grateful for his comments about liaison with the Scottish Parliament and the Welsh Senedd. There are obviously current challenges in respect of the Northern Ireland Executive. I would be grateful for some clarity about how the engagement with the devolved Administrations is going, because it has been a theme, certainly during the earlier debates. It is important that we can have confidence that all the issues that are being raised in our deliberations are coming into the Bill.

Clause 161 sets out when the Bill's provisions will come into force. I am sure the Minister will want to give assurances that that will be no later than is absolutely necessary, bearing in mind the urgency of the measures. Clause 162 establishes the short title and we welcome it.

Tom Tugendhat: Different devolved Administrations have been contacted in different ways. Some of them have been written to, and I have sought conversations with some, although that has not always been achieved because of other people's diaries as well as my own. The conversation is ongoing and, although I hope the Bill will be passed soon, it will have to continue because many things are going to change over the coming years.

Question put and agreed to.

Clause 160 accordingly ordered to stand part of the Bill.

Clauses 161 and 162 ordered to stand part of the Bill.

New Clause 1

Change of addresses of officers of overseas companies by registrar

"In section 1046 of the Companies Act 2006 (overseas companies: registration of particulars), after subsection (6) insert—

'(6A) Where regulations under this section require an overseas company to deliver to the registrar for registration—

(a) a service address for an officer of the company, or

(b) the address of the principal office of an officer of the company,

the regulations may make provision corresponding or similar to any provision made by section 1097B or 1097C (rectification of register relating to service addresses or principal office addresses) or to provision that may be made by regulations made under that section.'".—(*Kevin Hollinrake.*)

Where an overseas company is required to provide a service address or principal office address for a director or secretary, this new clause enables regulations to be made conferring power on the registrar to change the address if it does not meet the statutory requirements or is inaccurate.

Brought up, and read the First time.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss the following:

Government new clause 2—*Overseas companies: availability of material for public inspection etc.*

Government new clause 3—*Registered addresses of an overseas company.*

Government new clause 4—*Overseas companies: identity verification of directors.*

Kevin Hollinrake: It is always a pleasure to serve with you in the Chair, Ms Elliott. Government new clauses 1 to 4 will introduce delegated powers allowing for the application of the Companies House reform measures elsewhere in the Bill to overseas companies registered in the UK. In this context, an overseas company is one that is incorporated overseas but that has a physical establishment or branch in the UK. Under long-standing provisions in the Companies Act 2006, that presence brings with it certain obligations to register information with Companies House.

New clauses 1 to 3 allow for the making of regulations requiring overseas companies that have established a physical presence in the UK to provide an appropriate address for the overseas company, their directors or other officers, to the same standard required of domestic companies incorporated here in the UK. The aim is the same—to ensure that addresses and email addresses on the companies register are accurate and that documents sent to them will reach the companies concerned or their officers.

New clause 4 allows the application, through regulations, of identity verification requirements to directors of overseas companies operating in the UK. Through that, the Government seek to ensure that companies governed by the laws of other jurisdictions that operate in the UK are subject to identity verification requirements that are introduced by the Bill and will apply to UK companies. Regulations under the power will include requiring the delivery of statements or other information to the registrar. They will also include exemptions from identity verification on national security grounds.

The application of identity verification obligations through secondary legislation will allow the Government to adapt ID verification requirements at speed. Overseas companies who operate within the UK are only within limited control of UK law. UK legislation affecting them therefore needs to adapt more quickly to their changing circumstances than primary legislation would allow for.

Seema Malhotra: It is a pleasure to speak to the new clauses. The Minister has outlined the rationale for them, which is to bring some of the rules around overseas companies more in line with some other changes being made in the Bill. We welcome that, but I have a few questions.

New clause 1 outlines that where an overseas company is required to provide a service address or principal office address for a director or secretary, regulations can be made conferring power on the registrar to change the address if it does not meet the statutory requirements or is inaccurate. Who might determine whether the address is inaccurate? Is the expectation that the registrar finds that out or is that just about if something happens to be found out by chance? Is there any more information on how the power might be used to determine that an address is inaccurate?

New clause 2 confers a regulation-making power to require overseas companies to register information. The new clause makes it clear that the regulations can provide for the information to be withheld from public inspection and can confer a discretion on the registrar. We have had similar debates in Committee already. We will keep coming back to the question of the use of powers and the reporting on the use of those powers, particularly where information may be withheld. Would this be an example of a new power on the withholding of information from public inspection where the number of times it is used ought to be reported on? That would not need to give away details about whom the power had applied to, but it would help give an overall view of how the powers in the Bill were being used.

Under new clause 3, new regulations would require overseas companies to provide and maintain an appropriate address and email address. Would those new regulations be subject to the affirmative procedure, assuming that they would be in secondary legislation rather than in the Bill? It was not fully clear to me whether some of these matters were included in the Bill or whether they were regulations to enable the measures to come in later. Will the Minister clarify that?

Kevin Hollinrake: I am happy to, and I thank the hon. Lady for her points. As we have said during similar discussions, the registrar will have access to information; most of the queries that she will follow up will have come through information received during the course of her duties. It does not make sense for Companies House to physically validate all addresses, but nevertheless information may well come to light through the registrar's work or the requirement for other bodies to share information with her if they feel that inaccurate information is on the register. That is how we anticipate that information will come forward.

I will not revisit the issue of national security other than to say that the power will be used sparingly and that we do not know what we do not know, so it is important that we have a provision that might be necessary in future.

Regulations under new clause 4 will correspond to regulations applying to UK companies made and debated by Parliament under the affirmative procedure. The extension to overseas companies would therefore not require additional scrutiny by Parliament and the regulations will be subject to the negative procedure.

Question put and agreed to.

New clause 1 accordingly read a Second time, and added to the Bill.

New Clause 2

OVERSEAS COMPANIES: AVAILABILITY OF MATERIAL FOR PUBLIC INSPECTION ETC

"In section 1046 of the Companies Act 2006 (overseas companies: registration of particulars), after subsection (6A) (inserted by section (Change of addresses of officers of overseas companies by registrar) of this Act) insert—

'(6B) Regulations under this section may include provision for information delivered to the registrar under the regulations to be withheld from public inspection.

(6C) The provision that may be made by regulations under this section includes provision conferring a discretion on the registrar.'"—*(Kevin Hollinrake.)*

Section 1046 of the Companies Act 2006 confers a regulation-making power to require overseas companies to register information. The new clause makes it clear that the regulations can provide for the information to be withheld from public inspection and that they can confer a discretion on the registrar.

Brought up, read the First and Second time, and added to the Bill.

New Clause 3

REGISTERED ADDRESSES OF AN OVERSEAS COMPANY

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1048 insert—

'1048A Registered addresses of an overseas company

(1) The Secretary of State may by regulations make provision requiring an overseas company that is required to register particulars under section 1046 to deliver to the registrar for registration—

(a) a statement specifying an address in the United Kingdom that is an appropriate address for the company;

(b) a statement specifying an appropriate email address for the company.

(2) The regulations may include provision—

(a) allowing an overseas company to change the address or email address for the time being registered for it under the regulations;

(b) requiring an overseas company to ensure that the address or email address for the time being registered for it under the regulations is an appropriate address or appropriate email address.

(3) The regulations may include—

(a) provision for information contained in a statement specifying an appropriate email address to be withheld from public inspection;

(b) provision corresponding or similar to any provision made by section 1097A (rectification of register relating to a company's registered office) or to provision that may be made by regulations made under that section.

(4) In this section—

"appropriate address" has the meaning given by section 86(2);

"appropriate email address" has the meaning given by section 88A(2).

(5) Regulations under this section are subject to negative resolution procedure.'

(3) In section 1139 (service of documents on company), for subsections (2) and (3) substitute—

'(2) A document may be served on an overseas company whose particulars are registered under section 1046—

(a) by leaving it at, or sending it by post to, the company's registered address, or

(b) by leaving it at, or sending it by post to, the registered address of any person resident in the United Kingdom who is authorised to accept service of documents on the company's behalf.

(3) In subsection (2) "registered address"—

(a) in relation to the overseas company, means the address for the time being registered for the company under regulations under section 1048A(1)(a);

(b) in relation to a person other than the overseas company, means any address for the time being shown as a current address in relation to that person in the part of the register available for public inspection.'"—*(Kevin Hollinrake.)*

Regulations under this new clause can require an overseas company to provide and maintain an appropriate address and appropriate email address. Broadly speaking, an address is appropriate if documents sent there will reach the company.

Brought up, read the First and Second time, and added to the Bill.

New Clause 4

OVERSEAS COMPANIES: IDENTITY VERIFICATION OF DIRECTORS

"After section 1048A of the Companies Act 2006 (inserted by section (Registered addresses of overseas companies) of this Act) insert—

'1048B Identity verification of directors

(1) This section applies in relation to an overseas company that is required to register particulars under section 1046.

(2) The Secretary of State may by regulations make provision for the purpose of ensuring that each individual who is a director of such a company—

(a) is an individual whose identity is verified (see section 1110A), or

(b) falls within any exemption from identity verification that may be provided for by the regulations.

(3) The regulations may include provision—

(a) requiring the delivery of statements or other information to the registrar;

(b) for statements or other information delivered to the registrar under the regulations to be withheld from public inspection;

(c) applying section 167M (prohibition on director acting unless ID verified), with or without modifications;

(d) applying section 1110D (exemption from identity verification: national security grounds), with or without modifications.

(4) Regulations under this section are subject to negative resolution procedure.'"—*(Kevin Hollinrake.)*

Regulations under this new clause can impose identity verification requirements on the directors of overseas companies, corresponding to the requirements introduced by the Bill for directors of UK companies.

Brought up, read the First and Second time, and added to the Bill.

New Clause 5

RECTIFICATION OF REGISTER: SERVICE ADDRESSES

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1097A insert—

'1097B Rectification of register: service addresses

(1) The Secretary of State may by regulations make provision authorising or requiring the registrar to change a registered service address of a relevant person if satisfied that the address does not meet the requirements of section 1141(1) and (2).

(2) In this section—

"registered service address", in relation to a relevant person, means the address for the time being shown in the register as the person's current service address;

"relevant person" means—

(a) a director of a company that is not an overseas company,

(b) a secretary or one of the joint secretaries of a company that is not an overseas company, or

(c) a registrable person or registrable relevant legal entity in relation to a company (within the meanings given by section 790C).

(3) The regulations may authorise or require the address to be changed on the registrar's own motion or on an application by another person.

(4) The regulations must provide for the change in the address to be effected by the registrar proceeding as if the company had given notice under section 167H, 279H or 790LC of the change.

(5) The regulations may make provision as to—

(a) who may make an application,

(b) the information to be included in and documents to accompany an application,

(c) the registrar requiring the company or an applicant to provide information for the purposes of determining anything under the regulations,

(d) the notice to be given of an application or that the registrar is considering the exercise of powers under the regulations,

(e) the notice to be given of any decision under the regulations,

(f) the period in which objections to an application may be made,

(g) how the registrar is to determine whether a registered service address meets the requirements of section 1141(1) and (2), including in particular the evidence, or descriptions of evidence, which the registrar may without further enquiry rely on to be satisfied that the address meets those requirements,

(h) the referral by the registrar of any question for determination by the court,

(i) the registrar requiring the company to provide an address to be registered as the relevant person's service address,

(j) the nomination by the registrar of an address (a "default address") to be registered as the relevant person's service address (which need not meet the requirements of section 1141(1) and (2)),

(k) the period for which the default address is permitted to be the relevant person's registered service address, and

(l) when the change of address takes effect and the consequences of registration of the change (including provision similar or corresponding to section 1140(5)).

(6) The provision made by virtue of subsection (5)(k) may in particular include provision creating summary offences punishable with a fine not exceeding level 3 on the standard scale or, for continued contravention, a daily default fine not exceeding one-tenth of level 3 on the standard scale.

(7) The regulations must confer a right on the company to appeal to the court against any decision to change the relevant person's registered service address under the regulations.

(8) If the regulations enable a person to apply for a registered service address to be changed, they must also confer a right on the applicant to appeal to the court against a refusal of the application.

(9) On an appeal, the court must direct the registrar to register such address as the relevant person's registered service address as the court considers appropriate in all the circumstances of the case.

(10) The regulations may make further provision about an appeal and in particular—

(a) provision about the time within which an appeal must be brought and the grounds on which an appeal may be brought;

(b) further provision about directions by virtue of subsection (9).

(11) The regulations may include such provision applying (including applying with modifications), amending or repealing an enactment contained in this Act as the Secretary of State considers necessary or expedient in consequence of any provision made by the regulations.

(12) Regulations under this section are subject to affirmative resolution procedure.'

(3) In section 1087 (material not available for public inspection), in subsection (1)(ga)—

'(a) after "1097A" insert ", 1097B";

(b) for "company registered office" substitute "registered office, service address".'"—*(Kevin Hollinrake.)*

This new clause confers a regulation-making power to enable the registrar to change a person's registered service address. It is based on section 1097A of the Companies Act 2006, which makes similar provision in relation to a company's registered office.

Brought up, read the First and Second time, and added to the Bill.

2.15 pm

New Clause 6

RECTIFICATION OF REGISTER: PRINCIPAL OFFICE ADDRESSES

"(1) The Companies Act 2006 is amended as follows.

(2) After section 1097B (inserted by section (Rectification of register: service addresses) of this Act) insert—

'*1097C Rectification of register: principal office addresses*

(1) The Secretary of State may by regulations make provision authorising or requiring the registrar to change the address registered as the principal office of a relevant person if satisfied that the address is not in fact their principal office.

(2) In this section—

"address registered as the principal office", in relation to a relevant person, means the address for the time being shown in the register as the address of the person's current principal office;

"relevant person" means—

(a) a director of a company that is not an overseas company,

(b) a secretary or one of the joint secretaries of a company that is not an overseas company,

(c) a registrable relevant legal entity in relation to a company (within the meaning given by section 790C), or

(d) a registrable person in relation to a company (within the meaning given by section 790C) who falls within section 790C(12).

(3) The regulations may authorise or require the address to be changed on the registrar's own motion or on an application by another person.

(4) The regulations must provide for the change in the address to be effected by the registrar proceeding as if the company had given notice under section 167H, 279H or 790LC of the change.

(5) The regulations may make provision as to—

(a) who may make an application,

(b) the information to be included in and documents to accompany an application,

(c) the registrar requiring the company or an applicant to provide information for the purposes of determining anything under the regulations,

(d) the notice to be given of an application or that the registrar is considering the exercise of powers under the regulations,

(e) the notice to be given of any decision under the regulations,

(f) the period in which objections to an application may be made,

(g) how the registrar is to determine whether an address registered as the principal office of a relevant person is in fact the person's principal office, including in particular the evidence, or descriptions of evidence, which the registrar may without further enquiry rely on to be satisfied that the address meets those requirements,

(h) the referral by the registrar of any question for determination by the court,

(i) the registrar requiring the company to provide an address to be registered as the principal office of the relevant person,

(j) the nomination by the registrar of an address (a "default address") to be registered as the principal office of the relevant person (which need not be the relevant person's actual principal office),

(k) the period for which the default address is permitted to be the address registered as the principal office of the relevant person, and

(l) when the change of address takes effect and the consequences of registration of the change.

(6) The provision made by virtue of subsection (5)(k) may in particular include provision creating summary offences punishable with a fine not exceeding level 3 on the standard scale or, for continued contravention, a daily default fine not exceeding one-tenth of level 3 on the standard scale.

(7) The regulations must confer a right on the company to appeal to the court against any decision to change the address registered as the principal office of the relevant person under the regulations.

(8) If the regulations enable a person to apply for the address registered as the principal office of a relevant person to be changed, the regulations must also confer a right on the applicant to appeal to the court against a refusal of the application.

(9) On an appeal, the court must direct the registrar to register such address as the principal office of the relevant person as the court considers appropriate in all the circumstances of the case.

(10) The regulations may make further provision about an appeal and in particular—

(a) provision about the time within which an appeal must be brought and the grounds on which an appeal may be brought;

(b) further provision about directions by virtue of subsection (9).

(11) The regulations may include such provision applying (including applying with modifications), amending or repealing an enactment contained in this Act as the Secretary of State considers necessary or expedient in consequence of any provision made by the regulations.

(12) Regulations under this section are subject to affirmative resolution procedure.'

(3) In section 1087 (material not available for public inspection), in subsection (1)(ga)—

'(a) after "1097B" (inserted by section (Rectification of register: service addresses) of this Act) insert "or 1097C";

(b) after "service address" (inserted by section (Rectification of register: service addresses) of this Act) insert "or principal office address".'"—*(Kevin Hollinrake.)*

This new clause confers a regulation-making power to enable the registrar to change the address of a person's registered principal office. It is based on section 1097A of the Companies Act 2006, which makes similar provision in relation to a company's registered office.

Brought up, read the First and Second time, and added to the Bill.

New Clause 7

Power to require businesses to report discrepancies

'(1) The Companies Act 2006 is amended as follows.

(2) In section 1059A (scheme of Part 35), in subsection (4), at the appropriate place insert—

"section 1110E (power to require businesses to report discrepancies),".

(3) After section 1110D (inserted by section 65 of this Act) insert—

"Discrepancy reporting

1110E Power to require businesses to report discrepancies

(1) The Secretary of State may by regulations impose requirements on a person who is carrying on business in the United Kingdom (a "relevant person")—

(a) to obtain specified information about a customer (or prospective customer)—

(i) before entering into a business relationship with them, or

(ii) during a business relationship with them;

(b) to identify discrepancies between information so obtained and information made publicly available by the registrar, and

(c) to report any discrepancies to the registrar.

(2) The regulations may require the relevant person, when reporting discrepancies, to provide such other information as may be required by the regulations (including information about the relevant person).

(3) The regulations may provide for reports or other information delivered to the registrar under the regulations to be withheld from public inspection.

(4) The regulations may create offences in relation to failures to comply with requirements imposed by the regulations.

(5) The regulations may not provide for an offence created by the regulations to be punishable with imprisonment for a period exceeding—

(a) in the case of conviction on indictment, 2 years;

(b) in the case of summary conviction, 3 months.

(6) In this section "customer", in relation to a person carrying out estate agency work, includes a purchaser (as well as a seller).

(7) Regulations under this section are subject to affirmative resolution procedure."'—*(Kevin Hollinrake.)*

This new clause allows the Secretary of State to require businesses to obtain information and carry out checks for the purposes of identifying discrepancies between that information and information made publicly available by registrar.

Brought up, read the First and Second time, and added to the Bill.

New Clause 8

Service of documents on people with significant control

'In section 1140 of the Companies Act 2006 (service of documents on directors, secretaries and others), in subsection (2), after paragraph (a) insert—

"(aa) a person who is a registrable person or a registrable relevant legal entity in relation to a company (within the meanings given by section 790C);".'—*(Kevin Hollinrake.)*

This new clause allows documents to be served on those with significant control over a company at the registered address that appears for the person on the register.

Brought up, read the First and Second time, and added to the Bill.

New Clause 9

National security exemption from identity verification

'After section 29 of the Limited Partnerships Act 1907 (inserted by section 129 of this Act) insert—

"National security exemption from identity verification

29A National security exemption from identity verification

(1) The Secretary of State may, by written notice given to a person, provide for one or more of the effects listed in subsection (2) to apply in relation to the person, if satisfied that to do so is necessary—

(a) in the interests of national security, or

(b) for the purposes of preventing or detecting serious crime.

(2) The effects for which the notice may provide are that—

(a) section 8A(1C)(b) and (1F)(c)(ii) do not apply in relation to a statement naming the person as a proposed general partner's proposed registered officer;

(b) section 8L(3)(a)(ii) and (b)(ii) do not apply in relation to a notice naming the person as a general partner's new registered officer;

(c) sections 8Q(4)(b) and (7)(c)(ii) do not apply in relation to a notice naming the person as a general partner's proposed registered officer;

(d) where the person is a general partner's registered officer, section 8K(1)(c) does not impose any obligation on the general partner;

(e) section 26 (documents to be delivered by authorised corporate service providers) does not apply in relation to the delivery of documents to the registrar by the person on their own behalf or on behalf of another.

(3) For the purposes of subsection (1)(b)—

(a) "crime" means conduct which—

(i) constitutes a criminal offence, or

(ii) is, or corresponds to, any conduct which, if it all took place in any one part of the United Kingdom, would constitute a criminal offence, and

(b) crime is "serious" if—

(i) the offence which is or would be constituted by the conduct is an offence for which the maximum sentence (in any part of the United Kingdom) is imprisonment for 3 years or more, or

(ii) the conduct involves the use of violence, results in substantial financial gain or is conduct by a large number of persons in pursuit of a common purpose."'—*(Kevin Hollinrake.)*

This new clause allows the Secretary of State to exempt a person from certain requirements that relate to identity verification if satisfied that doing so is necessary for national security related reasons.

Brought up, read the First and Second time, and added to the Bill.

New Clause 10

POWER TO AMEND DISQUALIFICATION LEGISLATION IN RELATION TO RELEVANT ENTITIES: GB

"After section 22H of the Company Directors Disqualification Act 1986 insert—

'*22I Power to amend application of Act in relation to relevant entities*

(1) The Secretary of State may by regulations amend this Act for the purpose of applying, or modifying the application of, any of its provisions in relation to relevant entities.

(2) For that purpose, the regulations may in particular—

(a) extend the company disqualification conditions to include corresponding conditions relating to a relevant entity;

(b) limit the company disqualification conditions to remove conditions relating to a relevant entity;

(c) modify which company disqualification conditions can, in combination with each other, result in a person being disqualified under this Act;

(d) provide for any of the company disqualification conditions to result in or contribute to a person being disqualified from acting in a role or doing something in relation to a relevant entity.

(3) In this section "the company disqualification conditions" means the conditions that can result in or contribute to a person being disqualified under this Act from acting in a role or doing something in relation to any entity.

(4) In this section a "relevant entity" means—

(a) a limited partnership registered under the Limited Partnerships Act 1907;

(b) a limited liability partnership registered under the Limited Liability Partnerships Act 2000;

(c) a partnership, other than a limited partnership, that is—

(i) constituted under the law of Scotland, and

(ii) a qualifying partnership within the meaning given by regulation 3 of the Partnerships (Accounts) Regulations 2008.

(5) Regulations under this section may make—

(a) consequential, supplementary, incidental, transitional or saving provision;

(b) different provision for different purposes.

(6) The provision which may be made by virtue of subsection (5)(a) includes provision amending provision made by or under either of the following, whenever passed or made—

(a) an Act;

(b) Northern Ireland legislation.

(7) Regulations under this section are to be made by statutory instrument.

(8) A statutory instrument containing regulations under this section may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.'"—*(Kevin Hollinrake.)*

This new clause allows the Secretary of State to make regulations applying the CDDA in relation to relevant entities, meaning that a person's conduct in relation to relevant entities would lead to disqualification, and disqualifications in other circumstances would prohibit a person from acting in relation to relevant entities.

Brought up, and read the First time.

Kevin Hollinrake: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss Government new clause 11—*Power to amend disqualification in relation to relevant entities: NI.*

Kevin Hollinrake: Through other provisions in this Bill, a disqualified individual is prevented from acting as a general partner of a limited partnership. However, that would only cover individuals who have been disqualified for their actions as directors in a company. We also need to be able to disqualify general partners for their actions within a limited partnership. Currently, that cannot be done because the Company Directors Disqualification Act 1986 applies only to directors of companies and other limited corporate entities such as building societies and NHS foundation trusts. We would like to ensure that general partners are subject to the same requirements as directors. New clauses 10 and 11 therefore provide powers to update the 1986 Act and the Company Directors Disqualification (Northern Ireland) Order 2002 to apply to limited partnerships, limited liability partnerships and Scottish partnerships.

Seema Malhotra: It is a pleasure to say a few words in support of new clauses 10 and 11. New clause 10 introduces new provisions allowing the Secretary of State to make regulations applying the Company Directors

[Seema Malhotra]

Disqualification Act to relevant entities. The new clause outlines that these relevant entities include limited partnerships and Scottish limited partnerships. New clause 11 has the same effect and applies the same principles to the context of Northern Ireland. We welcome the new clauses, especially given our calls in Committee to extend directors disqualification criteria to limited partnerships.

Kevin Hollinrake: I have nothing further to add.

Question put and agreed to.

New clause 10 accordingly read a Second time, and added to the Bill.

New Clause 11

POWER TO AMEND DISQUALIFICATION LEGISLATION IN RELATION TO RELEVANT ENTITIES: NI

"(1) The Company Directors Disqualification (Northern Ireland) Order 2002 (S.I. 2002/3150 (N.I. 4)) is amended as follows.

(2) In Article 2(2) (interpretation), for the definition of 'regulations' substitute—

'"regulations", except in Articles 13D and 25D, means regulations made by the Department subject (except in Article 23(3)) to negative resolution;'.

(3) After Article 25C insert—

'25D Power to amend application of Order in relation to relevant entities

(1) The Secretary of State may by regulations amend this Order for the purpose of applying, or modifying the application of, any of its provisions in relation to relevant entities.

(2) For that purpose, the regulations may in particular—

(a) extend the company disqualification conditions to include corresponding conditions relating to a relevant entity;

(b) limit the company disqualification conditions to remove conditions relating to a relevant entity;

(c) modify which company disqualification conditions can, in combination with each other, result in a person being disqualified under this Order;

(d) provide for any of the company disqualification conditions to result in or contribute to a person being disqualified from acting in a role or doing something in relation to a relevant entity.

(3) In this Article "the company disqualification conditions" means the conditions that can result in or contribute to a person being disqualified under this Order from acting in a role or doing something in relation to any entity.

(4) In this Article a "relevant entity" means—

(a) a limited partnership registered under the Limited Partnerships Act 1907;

(b) a limited liability partnership registered under the Limited Liability Partnerships Act 2000;

(c) a partnership, other than a limited partnership, that is—

(i) constituted under the law of Scotland, and

(ii) a qualifying partnership within the meaning given by regulation 3 of the Partnerships (Accounts) Regulations 2008.

(5) Regulations under this Article may make consequential, supplementary, incidental, transitional or saving provision.

(6) The provision which may be made by virtue of paragraph (5) includes provision amending provision made by or under either of the following, whenever passed or made—

(a) an Act;

(b) Northern Ireland legislation.

(7) Regulations under this Article are to be made by statutory instrument.

(8) A statutory instrument containing regulations under this Article may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.'"—*(Kevin Hollinrake.)*

This new clause allows the Secretary of State to make regulations applying the CDD(NI)O 2002 in relation to relevant entities, meaning that a person's conduct in relation to relevant entities would lead to disqualification, and disqualifications in other circumstances would prohibit a person from acting in relation to relevant entities.

Brought up, read the First and Second time, and added to the Bill.

New Clause 12

REQUIRED INFORMATION ABOUT OVERSEAS ENTITIES: ADDRESS INFORMATION

"In the following provisions of Schedule 1 to the Economic Crime (Transparency and Enforcement) Act 2022 (which refer to an entity's registered or principal office) omit 'registered or'—

paragraph 2(1)(c);

paragraph 5(1)(b);

paragraph 6(1)(d);

paragraph 7(1)(b)."—*(Kevin Hollinrake.)*

This new clause would mean that the required information that must be provided about an overseas entity, a corporate registrable beneficial owner or managing officer includes its principal office in all cases, rather than there being an option to provide its registered or principal office.

Brought up, and read the First time.

Kevin Hollinrake: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss the following:

Government new clause 13—*Registration of information about land*.

Government new clause 14—*Registration of information about managing officers: age limits*.

Government new clause 15—*Registrable beneficial owners: cases involving trusts*.

Government new clause 21—*Enforcement of requirement to register: updated language about penalties etc*.

Kevin Hollinrake: All the new clauses relate to the register of overseas entities. New clause 12 will mean that the required information that must be provided about an overseas entity, a corporate registrable beneficial owner or a managing officer will always include its principal office, rather than there merely being an option to provide its registered or principal office. The new clause will improve the quality of the information provided and align with the information required about other types of legal entities.

New clause 14 will ensure that overseas entities that provide the details of a managing officer who is under the age of 16, or who is a legal entity, must also provide details of a person who is more than 16 years old. This is to ensure that there is a person who can be contacted about the overseas entity, in addition to the relevant person who verified the information. It is possible that

in jurisdictions outside the UK, individuals younger than 16 may be allowed to act as company directors, secretaries or equivalents. Directors of UK companies are required to be at least 16 years of age, so the new clause provides consistency by requiring the contact details of someone who is at least 16 years of age.

New clause 21 will update the language about penalties for non-compliance in section 34 of the Economic Crime (Transparency and Enforcement) Act 2022 to reflect changes made by the Judicial Review and Courts Act 2022. It will ensure consistency with the wording used in other clauses in the Bill.

New clause 13 will require overseas entities to include the title number for relevant interests in land that they hold in their application for registration, both when providing an update and when applying to be removed from the register. Overseas entities that are already registered will be required to provide this information when they next provide an update or, if sooner, when they apply to be removed from the register. The collection of this information will improve the effectiveness of the register and will help law enforcement agencies with their investigations. The information will not be made publicly available because the Government do not consider that to be appropriate, given privacy concerns.

Let me turn new clause 15. In advance of the launch of the register, the Register of Overseas Entities (Delivery, Protection and Trust Services) Regulations 2022 were made. Regulation 14 specified the circumstances in which a legal entity trustee is deemed to be

"subject to its own disclosure requirements".

By virtue of a legal entity trustee being a registrable beneficial owner, the overseas entity must provide the required information about the trust and persons connected to it, such as beneficiaries, settlors and interested persons.

Dame Margaret Hodge (Barking) (Lab): This is an issue for clarification, because it impacts on whether we move our new clause 59. Will the information that we are now going to get about trustees and beneficiaries be made public? Will it be open to the public in the same way as other information about beneficial owners is open to the public? I ask because that is what our new clause would achieve.

Kevin Hollinrake: I will deal with that, if I can, as I go through. Essentially, trusts are often there to protect the identity of vulnerable persons, so I am not sure that the provision will do what the right hon. Member wants to do in her new clause, but we can probably discuss that when we discuss her new clause.

Dame Margaret Hodge: So it does not do it.

Kevin Hollinrake: Without regulation 14, if the corporate trustee were not subject to its own disclosure requirements, the overseas entity would have to "look through" the legal entity trustee to find a registrable beneficial owner higher up the chain of ownership. But in the situations we are talking about it is information about the trust that is wanted, rather than information about the ownership or control of the legal entity trustee. Currently, regulation 14 therefore ensures that Companies House, His Majesty's Revenue and Customs and law enforcement agencies receive the information about the trust and persons connected to it, which I think may be the point that the right hon. Member raises and which is much more useful to meet the aims of the register.

New clause 15 goes further by ensuring that a legal entity acting as a trustee is always a registrable beneficial owner whether or not it is "subject to its own disclosure requirements" and even if there is another registrable beneficial owner further down a chain of ownership. This maximises the transparency in respect of the involvement of a legal entity trust in a chain of ownership.

The provisions also provide a power to expand the description of persons who are registrable beneficial owners where the overseas entity is part of a chain of entities that includes a trustee. It is appropriate to have a power to expand the description, given that there may be complex arrangements that attempt to circumvent the requirements. The provisions revoke regulation 14 because it is no longer needed.

Seema Malhotra: It is a pleasure to make a few remarks on the new clauses which, certainly from the way the Minister has outlined them, are welcome, in that they require more information and transparency around overseas entities. We welcome all the new clauses in that regard. I do not propose to go through them—the Minister went through them in considerable detail—but I have a few comments.

On new clause 13—in fact, in relation to all the new clauses—we welcome the additional transparency. I make the point again that a particular reason for that is the large-scale abuse that we know has occurred and occurs through these rather opaque offshore corporate structures.

On new clause 14, it is welcome to have the threshold at 16 years old, but I want to clarify what that means. Can there technically be a managing officer who is under 16 but an individual who is over 16 and is a contact on their behalf? It would be helpful to know whether there could still technically be an officer who was 12, 13 or 14. It would be useful to have clarity on that.

On closing the potential loophole of beneficial owners avoiding scrutiny by acting as a trustee, it is important to have the information. I want to clarify whether it should be the same amount of information about those who have been avoiding scrutiny as trustees. Will that information be published so that third parties can search it and investigate for themselves?

2.30 pm

Kevin Hollinrake: As I understand it, somebody under the age of 16 could be the managing officer, but we still require somebody over the age of 16 to be contactable. That is how we square that particular circle. It is not in our gift to legislate for how other jurisdictions describe directors of companies.

Forgive me, but I missed the hon. Lady's second point. If she could restate it, I will try to address it.

Seema Malhotra: My second comment was about trustee information. New clause 15 expands the definition of "registrable beneficial owners" in part 1 of the Economic Crime (Transparency and Enforcement) Act 2022 in relation to an entity one of whose beneficial owners is a

[Seema Malhotra]

trustee, such that the beneficial owner may be included. There is also a power to expand that definition further. It looks like it is closing a potential loophole that enables beneficial owners to avoid scrutiny through acting as a trustee. The question was about whether the new information about trustees will also be published, whether there will be full transparency and whether it will be searchable by any interested parties.

Kevin Hollinrake: Okay. That was a similar point to the one made by the right hon. Member for Barking. No, we do not feel that is right. We do not believe that trust information should be made publicly available, given that trusts are often used to protect vulnerable people. I reassure the hon. Lady that that information will be shareable with HMRC, law enforcement and other persons with functions of a public nature once the relevant regulations have been made.

Question put and agreed to.

New clause 12 accordingly read a Second time, and added to the Bill.

New Clause 13

REGISTRATION OF INFORMATION ABOUT LAND

"In Schedule 1 to the Economic Crime (Transparency and Enforcement) Act 2022 (required information), in paragraph 2—

(a) in sub-paragraph (1), after paragraph (g) insert—

'(h) if the entity is the registered proprietor of one or more qualifying estates in land in England and Wales, the title number of each of them;

(b) if the entity is the registered owner of one or more qualifying estates in Northern Ireland, the folio number in respect of each of them;

(c) if the entity is—

(i) entered as proprietor in the proprietorship section of the title sheet for one or more plots of land that are registered in the Land Register of Scotland, or

(ii) the tenant under one or more leases registered in the Land Register of Scotland,

the title number of the title sheet, in respect of each of them, in which the entity's interest is registered.';

(b) after sub-paragraph (2) insert—

'(3) In sub-paragraph (1)(h)—

"registered proprietor", in relation to a qualifying estate, means the person entered as proprietor of the estate in the register of title kept by the Chief Land Registrar;

"qualifying estate" has the meaning given by paragraph 1 of Schedule 4A to the Land Registration Act 2002.

(4) In sub-paragraph (1)(i)—

"registered owner", in relation to a qualifying estate, means the person registered in the register kept under the Land Registration Act (Northern Ireland) 1970 (c. 18 (N.I.)) as the owner of the estate;

"qualifying estate" has the meaning given by paragraph 1 of Schedule 8A to the Land Registration Act (Northern Ireland) 1970.

(5) In sub-paragraph (1)(j)—

(a) "lease", "plot of land" and "proprietor" have the meanings given by section 113(1) of the Land Registration etc. (Scotland) Act 2012;

(b) the reference to an entity's being entered as proprietor in the proprietorship section of a title sheet is a reference to the name of the entity being so entered.'"—*(Kevin Hollinrake.)*

This new clause requires an overseas entity, when applying for registration in the register of overseas entities or providing an update, to include the title number etc for relevant interests in land held by it. For entities already registered, it will operate when they next provide an update.

Brought up, read the First and Second time, and added to the Bill.

New Clause 14

REGISTRATION OF INFORMATION ABOUT MANAGING OFFICERS: AGE LIMITS

"(1) Schedule 1 to the Economic Crime (Transparency and Enforcement) Act 2022 (applications: required information) is amended as follows.

(2) In paragraph 6(1), after paragraph (f) insert—

'(g) if the officer is under the age of 16 years old, the name and contact details of an individual who is at least 16 years old and is willing to be contacted about the officer.'

(3) In paragraph 7(1), for paragraph (g) substitute—

'(g) the name and contact details of an individual who is at least 16 years old and is willing to be contacted about the officer.'"—*(Kevin Hollinrake.)*

This new clause means that, where an application for registration as an overseas entity is required to provide details of a managing officer, there will be a requirement to include the name of an individual who is at least 16 years old and is willing to be contacted about the officer (unless the officer is an individual of at least that age).

Brought up, read the First and Second time, and added to the Bill.

New Clause 15

REGISTRABLE BENEFICIAL OWNERS: CASES INVOLVING TRUSTS

"(1) Schedule 2 to the Economic Crime (Transparency and Enforcement) Act 2022 (registrable beneficial owners) is amended in accordance with subsections (2) to (5).

(2) In paragraph 3 (legal entities), in paragraph (b), after '(see Part 3)' insert 'or is a beneficial owner of the overseas entity by virtue of being a trustee'.

(3) In paragraph 8 (beneficial owners exempt from registration), after paragraph (b) insert—

'(ba) the person is not a beneficial owner of the overseas entity by virtue of being a trustee,'.

(4) For the heading of Part 6 substitute 'Powers to amend this Schedule'.

(5) Before paragraph 25 insert—

'Expansion of meaning of "registrable beneficial owner" where trusts in view

24A (1) The Secretary of State may by regulations amend this Schedule so as to expand the description of persons who are registrable beneficial owners of an overseas entity in circumstances where the overseas entity is part of a chain of entities that includes a trustee.

(2) For these purposes an overseas entity is part of a chain of entities that includes a trustee if there is a legal entity which is a beneficial owner of it by virtue of being a trustee.

(3) Regulations under this paragraph are subject to the affirmative resolution procedure.

Power to amend thresholds etc'.

(6) Regulation 14 of the Register of Overseas Entities (Delivery, Protection and Trust Services) Regulations 2022 (S.I. 2022/870) (description of legal entity subject to its own disclosure requirements) is revoked."—*(Kevin Hollinrake.)*

This new clause expands the definition of "registrable beneficial owner" in Part 1 of the Economic Crime (Transparency and Enforcement) Act 2022 in relation to an entity one of whose beneficial owners is a trustee. There is also a power to further expand the definition.

Brought up, read the First and Second time, and added to the Bill.

New Clause 16

MATERIAL UNAVAILABLE FOR PUBLIC INSPECTION: VERIFICATION INFORMATION

"In section 16 of the Economic Crime (Transparency and Enforcement) Act 2022 (verification of registrable beneficial owners and managing officers), in subsection (2), after paragraph (c) insert—

'(d) requiring the registrar not to make available for public inspection certain information delivered to the registrar by virtue of the regulations.'"—*(Kevin Hollinrake.)*

Section 16 of the Economic Crime (Transparency and Enforcement) Act 2022 confers power to make regulations about identity verification. This new clause allows the regulations to provide that information provided under the regulations is protected from public inspection.

Brought up, read the First and Second time, and added to the Bill.

New Clause 17

MATERIAL UNAVAILABLE FOR PUBLIC INSPECTION

"For sections 22 to 24 of the Economic Crime (Transparency and Enforcement) Act 2022 substitute—

'22 Material unavailable for inspection

(1) The following material must not, so far as it forms part of the register, be made available by the registrar for public inspection—

(a) so much of any application or other document delivered to the registrar under section 4, 7 or 9 as is required to contain—

(i) protected date of birth information;

(ii) protected residential address information;

(iii) protected trusts information;

(iv) the name or contact details of an individual provided for the purposes of section 4(1)(d), 7(1)(e) or 9(1)(f) or paragraph 6(1)(g) or 7(1)(g) of Schedule 1;

(v) an overseas entity's email address (see paragraph 2(1)(e) of Schedule 1);

(vi) any title numbers or folio numbers in respect of land (see paragraph 2(1)(h), (i) and (j) of Schedule 1);

(b) any information that regulations under section 16 provide is not to be made available for public inspection;

(c) the following—

(i) any application or other document delivered to the registrar under regulations under section 25 (regulations protecting material), other than information provided by virtue of section 25(4);

(ii) any information which regulations under section 25 require not to be made available for public inspection;

(d) any application or other document delivered to the registrar under section 28 (administrative removal of material from the register);

(e) any court order under section 30 (rectification of the register under court order) that the court has directed under section 31 is not to be made available for public inspection;

(f) any statement delivered to the registrar by virtue of section 1067A(3) or (4) of the Companies Act 2006 (delivery of documents: identity verification requirements etc);

(g) any statement made in accordance with regulations made by virtue of section 1082(2)(c) of the Companies Act 2006 (statement of unique identifier);

(h) any document provided to the registrar under section 1092A of the Companies Act 2006 (power to require further information);

(i) any email address, identification code or password deriving from a document delivered for the purpose of authorising or facilitating electronic filing procedures or providing information by telephone;

(j) any record of the information contained in a document (or part of a document) mentioned in any of the previous paragraphs of this subsection;

(k) any other material excluded from public inspection by or under any other enactment.

(2) In this section—

"protected date of birth information" means information as to the day of the month (but not the month or year) on which an individual who is a registrable beneficial owner or managing officer of an overseas entity was born;

"protected residential address information" means information as to the usual residential address of an individual who is a registrable beneficial owner or managing officer of an overseas entity;

"protected trusts information" means the required information about a trust (see sections 4(3), 7(3) and (4) and 9(3) and (4).

(3) Information about a registrable beneficial owner or managing officer does not cease to be protected date of birth information or protected residential address information when they cease to be a registrable beneficial owner or managing officer.

(4) Where subsection (1), or a provision referred to in subsection (1), imposes a restriction by reference to material deriving from a particular description of document (or part of a document), that does not affect the availability for public inspection of the same information contained in material derived from another description of document (or part of a document) in relation to which no such restriction applies.

(5) The registrar need not retain material to which subsection (1) applies for longer than appears to the registrar reasonably necessary for the purposes for which the material was delivered to the registrar.

23 Disclosure of protected information

(1) The registrar must not disclose protected date of birth information, protected residential address information or protected trusts information unless—

(a) the disclosure is permitted by section 1110F of the Companies Act 2006 (general powers of disclosure by the registrar), or

(b) the information is required to be made available for public inspection (as a result of being contained in a document, part of a document, or record to which section 22(1) does not apply).

(2) In this section the following have the meaning given by section 22(2)—

"protected date of birth information";

"protected residential address information";

"protected trusts information".'"—*(Kevin Hollinrake.)*

This new clause replicates for the register of overseas entities a number of changes made by the Bill in relation to companies. It also extends the list of information unavailable for public inspection.

Brought up, read the First and Second time, and added to the Bill.

New Clause 18

PROTECTION OF INFORMATION

"For section 25 of the Economic Crime (Transparency and Enforcement) Act 2022 substitute—

'25 Power to make regulations protecting material

(1) The Secretary of State may by regulations make provision requiring the registrar, on application—

(a) not to make available for public inspection any information on the register relating to an individual;

(b) to refrain from disclosing information on the register relating to an individual except in specified circumstances;

(c) not to make available for public inspection any address on the register that is not information to which paragraph (a) applies;

(d) to refrain from disclosing any such address except in specified circumstances.

(2) The regulations may make provision as to—

(a) who may make an application;

(b) the grounds on which an application may be made;

(c) the information to be included in and documents to accompany an application;

(d) the notice to be given of an application and of its outcome;

(e) how an application is to be determined;

(f) the duration of, and procedures for revoking, any restrictions on the making of information available for public inspection or its disclosure.

(3) Provision under subsection (2)(e) or (2)(f) may in particular—

(a) confer a discretion on the registrar;

(b) provide for a question to be referred to a person other than the registrar for the purposes of determining the application or revoking the restrictions.

(4) Regulations under subsection (1)(a) or (1)(c) may provide that information is not to be made unavailable for public inspection unless the person to whom it relates provides such alternative information as may be specified.

(5) The circumstances that may be specified under subsection (1)(b) or (d) by way of an exception to a restriction on disclosure include circumstances where the court has made an order, in accordance with the regulations, authorising disclosure.

(6) Regulations under subsection (1)(b) or (d) may not require the registrar to refrain from disclosing information under section 1110F of the Companies Act 2006 (general powers of disclosure by the registrar).

(7) Regulations under this section may impose a duty on the registrar to publish, in relation to such periods as may be specified—

(a) details of how many applications have been made under the regulations and how many of them have been allowed, and

(b) such other details in connection with applications under the regulations as may be specified in the regulations.

(8) Regulations under this section are subject to affirmative resolution procedure.'"—*(Kevin Hollinrake.)*

This new clause replicates for the register of overseas entities the provision made by clause 87 of the Bill in relation to companies.

Brought up, read the First and Second time, and added to the Bill.

New Clause 19

RESOLVING INCONSISTENCIES IN THE REGISTER

"(1) Section 27 of the Economic Crime (Transparency and Enforcement) Act 2022 (resolving inconsistencies in the register) is amended as follows.

(2) For subsections (1) and (2) substitute—

'(1) Where it appears to the registrar that the information contained in a document delivered to the registrar by an overseas entity in connection with the register is inconsistent with other information contained in records kept by the registrar under section 1080 of the Companies Act 2006, the registrar may give notice to the overseas entity to which the document relates—

(a) stating in what respects the information contained in it appears to be inconsistent with other information in records kept by the registrar under section 1080 of the Companies Act 2006, and

(b) requiring the overseas entity, within the period of 14 days beginning with the date on which the notice is issued, to take all such steps as are reasonably open to it to resolve the inconsistency by delivering replacement or additional documents or in any other way.

(2) The notice must state the date on which it is issued.'

(3) In the heading, omit 'in the register'."—*(Kevin Hollinrake.)*

This new clause makes changes for the purpose of resolving inconsistencies in information relating to overseas entities that corresponds to the changes made by clause 81 of the Bill in relation to companies.

Brought up, read the First and Second time, and added to the Bill.

New Clause 20

ADMINISTRATIVE REMOVAL OF MATERIAL FROM REGISTER

"(1) In the Economic Crime (Transparency and Enforcement) Act 2022—

(a) for section 28 substitute—

'28 Administrative removal of material from the register

(1) The registrar may remove from the register anything that appears to the registrar to be—

(a) a document, or material derived from a document, accepted under section 1073 of the Companies Act 2006 (power to accept documents not meeting requirements for proper delivery), or

(b) unnecessary material as defined by section 1074 of the Companies Act 2006.

(2) The power to remove material from the register under this section may be exercised—

(a) on the registrar's own motion, or

(b) on an application made in accordance with regulations under section 28A(2).

(3) The Secretary of State may by regulations provide that the registrar's power to remove material from the register under this section following an application is limited to material of a description specified in the regulations.

(4) Regulations under this section are subject to the negative resolution procedure.

28A Further provision about removal of material from the register

(1) The Secretary of State must by regulations make provision for notice to be given in accordance with the regulations where material is removed from the register under section 28 otherwise than on an application.

(2) The Secretary of State must by regulations make provision in connection with the making and determination of applications for the removal of material from the register under section 28.

(3) The provision that may be made under subsection (2) includes provision as to—

(a) who may make an application,

(b) the information to be included in and documents to accompany an application,

(c) the notice to be given of an application and of its outcome,

(d) a period in which objections to an application may be made, and

(e) how an application is to be determined, including provision as to evidence that may be relied upon by the registrar for the purposes of satisfying the test in section 28(1).

(4) The provision that may be made by virtue of subsection (3)(e) includes provision as to circumstances in which—

(a) evidence is to be treated by the registrar as conclusive proof that the test in section 28(1) is met, and

(b) the power of removal must be exercised.

(5) Regulations under this section are subject to the negative resolution procedure.';

(b) omit sections 29 and 29A (application to rectify register and resolution of discrepancies).

(2) In section 1073 of the Companies Act 2006 (power to accept documents not meeting requirements for proper delivery), in subsection (6)(a), after 'section 1094A(1)' (inserted by section 82 of this Act) insert—

'or any corresponding provision of any other enactment'."—*(Kevin Hollinrake.)*

This new clause replicates for the register of overseas entities the changes that clause 82 of the Bill makes in relation to the register of companies.

Brought up, read the First and Second time, and added to the Bill.

New Clause 21

ENFORCEMENT OF REQUIREMENT TO REGISTER: UPDATED LANGUAGE ABOUT PENALTIES ETC

"(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In section 34 (power to require overseas entity to register if it owns certain land)—

(a) in subsection (4)(a), for 'the maximum summary term for either-way offences' substitute 'a term not exceeding the general limit in a magistrates' court';

(b) omit subsection (5).

(3) In section 36 (meaning of 'daily default fine') after 'applies for' insert 'the'."—*(Kevin Hollinrake.)*

This new clause updates the penalty provision for the offence in section 34 of the Economic Crime (Transparency and Enforcement) Act 2022 to reflect changes made by the Judicial Review and Courts Act 2022. This ensures consistency with the language that clauses 136 and 137 introduce into the 2022 Act.

Brought up, read the First and Second time, and added to the Bill.

Ordered, That further consideration be now adjourned. —*(Scott Mann.)*

2.38 pm

Adjourned till Thursday 24 November at half-past Eleven o'clock.

Written evidence reported to the House

ECCTB 21 Mark Hardy

ECCTB 22 Elspeth Berry, Associate Professor of Law, Nottingham Law School (further/second supplementary submission)

ECCTB 23 Mastercard

ECCTB 24 Legal Services Board

ECCTB 25 Professor John Heathershaw, University of Exeter, & Thomas Mayne, University of Oxford (supplementary submission)

ECCTB 26 Letter from Kevin Hollinrake MP, Minister for Enterprise, Markets and Small Business, at the Department for Business, Energy and Industrial Strategy, dated 21 November 2022, re: Clarifications from Economic Crime and Corporate Transparency Bill Public Bill Committee, Day 5, Thursday 17 November

ECCTB 27 Peters and Peters Solicitors LLP

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Seventeenth Sitting

Thursday 24 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 28 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 24 November 2022

(Morning)

[Sir Christopher Chope *in the Chair*]

Economic Crime and Corporate Transparency Bill

New Clause 22

Registration of qualifying Scottish partnerships

11.30 am

'(1) The Secretary of State may by regulations—

(a) make provision requiring the delivery to the registrar of information in connection with a qualifying Scottish partnership;

(b) make provision for the purpose of ensuring that a partner of a qualifying Scottish partnership has at least one managing officer who is—

(i) an individual whose identity is verified (within the meaning of section 1110A of the Companies Act 2006), or

(ii) falls within any exemption from identity verification that may be provided for by the regulations;

(c) make provision in relation to qualifying Scottish partnerships that corresponds or is similar to any provision relating to companies or limited partnerships made by or under, or capable of being made under, any Act.

(2) The regulations may create summary offences, punishable with a fine, in connection with any provision made by virtue of subsection (1)(a) or (b).

(3) Do not read subsection (2) as impliedly limiting the provision that can be made by virtue of subsection (1)(c).

(4) The provision that may be made by virtue subsection (1)(c) includes provision for the purpose mentioned in subsection (1)(b).

(5) The provision which may be made by regulations under subsection (1) by virtue of section 159(1)(a) includes provision amending, repealing or revoking provision made by or under any Act, whenever passed or made.

(6) In this section—

"managing officer" has the meaning given by section 3(1) of the Limited Partnerships Act 1907;

"qualifying Scottish partnership" means a partnership, other than a limited partnership, that—

(a) is constituted under the law of Scotland, and

(b) is a qualifying partnership with the meaning given by regulation 3 of the Partnership (Accounts) Regulations 2008;

"the registrar" means registrar of companies for Scotland.'.
—(Kevin Hollinrake.)

This new clause allows regulations to be made about the registration of certain Scottish partnerships and to apply law relating to companies or limited partnerships. It would allow The Scottish Partnerships (Register of People with Significant Control) Regulations 2017 to be amended or replaced in relation to those partnerships.

Brought up, read the First and Second time, and added to the Bill.

New Clause 23

Cryptoassets: terrorism

'(1) Part 1 of Schedule (Cryptoassets: terrorism) amends the Anti-terrorism, Crime and Security Act 2001 to make provision for a civil recovery regime in relation to cryptoassets which—

(a) are intended to be used for the purposes of terrorism,

(b) consist of resources of an organisation which is a proscribed organisation, or

(c) are, or represent, property obtained through terrorism.

(2) Part 2 of Schedule (Cryptoassets: terrorism) amends the Terrorism Act 2000 to make provision about financial institutions and cryptoassets.'.*—(Kevin Hollinrake.)*

This new clause introduces the new Schedule inserted by NS1. Part 1 of that Schedule contains provision about a civil recovery regime for terrorist cryptoassets. Part 2 of that Schedule contains provision about financial institutions and cryptoassets.

Brought up, read the First and Second time, and added to the Bill.

New Clause 30

Duty to notify registrar of dissolution

"After section 17 of the Limited Partnerships Act 1907 (power of board of trade to make rules) insert—

'Dissolution, revival and deregistration

17A Duty to notify registrar of dissolution

(1) If a limited partnership is dissolved at a time when the partnership has at least one general partner, the general partners at that time must notify the registrar that the limited partnership has been dissolved.

(2) If a limited partnership is dissolved at a time when the partnership does not have a general partner, the limited partners at that time must notify the registrar that the limited partnership has been dissolved.

(3) If the general partners fail to comply with subsection (1) an offence is committed by each general partner who is in default.

(4) If the limited partners fail to comply with subsection (2) an offence is committed by each limited partner who is in default.

(5) But where the general partner or limited partner is a legal entity, it does not commit an offence as a general partner or limited partner in default unless one of its managing officers is in default.

(6) Where any such offence is committed by a general partner or limited partner that is a legal entity, or any such offence is by virtue of this subsection committed by a managing officer that is a legal entity, any managing officer of the legal entity who is in default also commits the offence if—

(a) the managing officer is an individual, or

(b) the managing officer is a legal entity and one of its managing officers is in default.

(7) A person guilty of an offence under this section is liable on summary conviction—

(a) in England and Wales, to a fine;

(b) in Scotland or Northern Ireland, to 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.

(8) A general partner, limited partner or managing officer is "in default" for the purposes of this section if they authorise or permit, participate in, or fail to take all reasonable steps to prevent, the contravention.'."*—(Kevin Hollinrake.)*

This new clause means that when a limited partnership is dissolved which partners are required to notify the registrar does not depend on their solvency.

Brought up, read the First and Second time, and added to the Bill.

New Clause 31

WINDING UP LIMITED PARTNERSHIPS ON GROUNDS OF PUBLIC INTEREST

"After section 25 of the Limited Partnerships Act 1907 (inserted by section 127 of this Act) insert—

'Winding up limited partnerships: court orders

25A Winding up limited partnerships on grounds of public interest

(1) Where it appears to the Secretary of State that it is expedient in the public interest for a limited partnership to be wound up, the Secretary of State may present a petition to the court for it to be wound up.

(2) If a petition is presented under subsection (1), the court may wind up the limited partnership if the court is of the opinion that it is just and equitable for it to be wound up.

(3) The power in subsection (2) does not limit any other power the court has in the same circumstances.'."—*(Kevin Hollinrake.)*

This new clause would allow the court to order the winding up of a limited partnership on a petition by the Secretary of State in the public interest.

Brought up, read the First and Second time, and added to the Bill.

New Clause 32

WINDING UP DISSOLVED LIMITED PARTNERSHIPS

"After section 25A of the Limited Partnerships Act 1907 (inserted by section (Winding up limited partnerships on grounds of public interest) of this Act) insert—

'25B Winding up dissolved limited partnerships

(1) Where a limited partnership is dissolved and it appears to the court that there has been a failure to wind up the limited partnership under section 6(3A) or (3B) properly or at all, the court may make any order it considers appropriate, including an order—

(a) for the purposes of enforcing the duty in section 6(3A) or (3B),

(b) in connection with the performance of that duty, or

(c) to wind up the limited partnership.

(2) The court may make an order under subsection (1) on an application by the Secretary of State or any other person appearing to the court to have sufficient interest.

(3) The power in subsection (1) does not limit any other power the court has in the same circumstances.'."—*(Kevin Hollinrake.)*

This new clause would mean that if a limited partnership has not been wound up as required by section 6(3A) or 6(3B), the court can make various orders on an application by the Secretary of State or a person with sufficient interest, including an order to wind up the limited partnership.

Brought up, read the First and Second time, and added to the Bill.

New Clause 34

REQUIREMENTS TO CHANGE NAME: REMOVAL OF OLD NAME FROM PUBLIC INSPECTION

'(1) The Companies Act 2006 is amended as follows.

(2) In section 64 (company ceasing to be entitled to exemption in relation to use of "limited" etc), after subsection (6) insert—

"(6A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."

(3) In section 67 (power to direct change of name in case of similarity to existing name), after subsection (1) insert—

"(1A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates (so far as it relates to the company to which the direction is given)."

(4) In section 73 (order requiring name to be changed), after subsection (6) insert—

"(7) Where an order is made under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the order relates."

(5) In section 75 (provision of misleading information), after subsection (4) insert—

"(4A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."

(6) In section 76 (misleading indication of activities), after subsection (5) insert—

"(5A) Where a direction is given under subsection (1), the registrar may omit from the material on the register that is available for public inspection any mention of the name to which the direction relates."'.—*(Kevin Hollinrake.)*

The Companies Act 2006 contains various powers to direct a company to change its name. This clause allows the registrar to omit from the material that is available for public inspection references to the company's name once it has been given a direction.

Brought up, read the First and Second time, and added to the Bill.

New Clause 47

SCOTTISH SOLICITORS' DISCIPLINE TRIBUNAL: POWERS TO FINE IN CASES RELATING TO ECONOMIC CRIME

'(1) Section 53 of the Solicitors (Scotland) Act 1980 (powers of tribunal) is amended as follows.

(2) In subsection (1)—

(a) in paragraph (b)—

(i) after "dishonesty" insert "(other than a conviction for an economic crime offence)";

(ii) after "or has" insert "(other than in relation to a conviction for an economic crime offence)";

(b) after paragraph (b) insert—

"(ba) a solicitor has (whether before or after enrolment as a solicitor) been convicted by any court of an economic crime offence, or";

(c) in paragraph (c), after "offence" insert "(other than a conviction for an economic crime offence)";

(d) after paragraph (c) insert—

"(ca) an incorporated practice has been convicted by any court of an economic crime offence, which conviction the Tribunal is satisfied renders it unsuitable to continue to be recognised under section 34(1A), or."

(3) In subsection (2), after paragraph (c), insert—

"(ca) where the Tribunal is proceeding on the ground in subsection (1)(ba) or (1)(ca), or where subsection (2A) or (2B) applies, impose on the solicitor or, as the case may be, the incorporated practice, a fine of any amount."

(4) After subsection (2), insert—

"(2A) This subsection applies where the Tribunal is proceeding on the ground referred to in subsection (1)(a) and —

(a) the solicitor has, in relation to the subject matter of the Tribunal's inquiry, been convicted by any court of an economic crime offence, or

(b) the misconduct referred to in subsection (1)(a) consisted of an act or omission which had the effect of inhibiting the prevention or detection of an economic crime offence.

(2B) This subsection applies where the Tribunal is proceeding on the ground referred to in subsection (1)(d) and the incorporated practice has —

(a) in relation to the subject matter of the Tribunal's inquiry, been convicted by any court of an economic crime offence, or

(b) failed to comply with a provision or rule as referred to in subsection (1)(d) and—

(i) the failure consisted of an act or omission which had the effect of inhibiting the prevention or detection of an economic crime offence, or

(ii) the provision or rule applies only for purposes relating to the prevention or detection of an economic crime offence."

(5) In subsection (3ZA)—

(a) in paragraph (a), after "dishonesty" insert "(not being an economic crime offence)";

(b) in paragraph (b), at the end insert ", (1)(ba) or (1)(ca)";

(c) after paragraph (b), insert—

"(c) where subsection (2A) or (3A) applies."

(6) In subsection (3A)—

(a) in paragraph (a), for "(1)(a) or (b)" substitute "(1)(a), (b) or (ba)";

(b) in paragraph (b), for "(1)(c) or (d)" substitute "(1)(c), (ca) or (d)".

(7) After subsection (9), insert—

"(9A) In this section, an economic crime offence means an economic crime within the meaning given by section 153(1) of the Economic Crime and Corporate Transparency Act 2022."

(8) The amendments made by this section do not apply in relation to any act or omission occurring before the day on which this section comes into force.'.—*(Kevin Hollinrake.)*

This new clause amends the Solicitors (Scotland) Act 1980 to remove the existing statutory limit on financial penalties that can be imposed by the Scottish Solicitors' Discipline Tribunal for disciplinary matters relating to economic crime offences; this will allow the Tribunal to impose fines of any amount in such cases.

Brought up, read the First and Second time, and added to the Bill.

New Clause 24

DISCLOSURE OF INFORMATION RELATING TO BANK ACCOUNTS HELD BY SUBSCRIBERS TO A MEMORANDUM OF ASSOCIATION

'(1) Section 9 of the Companies Act 2006 (registration of documents) is amended as follows.

(2) After subsection (5), insert—

"(5A) The application must also contain the name of the jurisdiction of the issuing bank of each bank account—

(a) held by each subscriber to the memorandum of association,

(b) held or to be held by the company being incorporated, and

(c) held or to be held by any company linked to the company being incorporated.".—*(Alison Thewliss.)*

This new clause requires relevant parties to disclose where their bank accounts are held.

Brought up, and read the First time.

Alison Thewliss (Glasgow Central) (SNP): I beg to move, That the clause be read a Second time.

The new clause is designed to ensure disclosure of information relating to bank accounts held by subscribers to a memorandum of association. Like many of the amendments that the Opposition have proposed, it is aimed at tightening up loopholes, making things just that wee bit more transparent, and flagging up any issues to Companies House. The issue of bank accounts and people carrying on business at a particular address in the UK has been discussed previously. Adding a bank account to that, so that one can go, "This is a bank account. This bank account is held in the UK," and one can find that account quite easily as a result, seems to be a sensible way to close down yet another loophole in the Bill. It will continue the jurisdiction of the issuing bank of each account, which goes to some of the other points made about Companies House registration being used and abused as a means of setting up bank accounts in other jurisdictions. People were abusing the veneer of respectability afforded to them by a company registration in the UK to then set up bank accounts in other countries, which affects those other countries through the perpetration of fraud or dubious activities in those countries by those using that Companies House veneer of respectability.

The new clause would provide a bit more transparency by giving the company registrar more information, which would be useful in terms of those red flags and making it clear where companies are actually based and carrying on their business. If, for example, a company's bank account is held in Mauritius and it claims to carry out its business in the UK, Companies House could query that and ask, "If you are really carrying on your business in the UK, why is your bank account held in Mauritius?" That would be a red flag for the registrar and would be an extra small but significant hoop that a company would have to jump through to make the situation clearer and to give Companies House a bit more reassurance that the business that is registering is indeed legitimate. It adds a helpful grip within the system, and helps Companies House to identify any red flags. I urge the Minister to consider whether this is a measure that would help Companies House in its work.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Sir Christopher. New clause 24, tabled by SNP Members, would add to the transparency of the companies register and enhance the ability of law enforcement to identify suspect registrations. It would do so by requiring the subscribers or initial shareholders of a company to provide information on the location of any bank account held either by the individual shareholders or in the name of the company itself.

The new clause reflects an acknowledgement of the realities that have been exposed by many of the recent leaks and investigative reporting by the media of the widespread criminal use of bank accounts registered in jurisdictions known for exercising minimal oversight over financial activity and for lax controls on money laundering offences. Given that the entire point of the Bill is to clamp down on the ability of criminals to exploit gaps in laws and regulatory approaches to economic crime across different countries, the Opposition sincerely hope that the Government welcome proposals that are intended to provide law enforcement with as much information as possible to facilitate the detection of economic crime. Requiring Companies House to record information on the location of relevant individuals' bank accounts seems like an eminently reasonable measure that could make a valuable contribution to the fight against economic crime.

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, Sir Christopher. I thank the hon. Member for Glasgow Central for the new clause, which raises an interesting point. I have concerns about the privacy issues involved in putting this information in the public domain, and I wonder whether she has considered that. We are potentially talking about personal bank accounts rather than company bank accounts.

A similar proposal to require the disclosure of bank account information relating to companies was included in the 2019 corporate transparency and register reform consultation, as the hon. Member mentioned. Respondents did not on balance support the proposal and the Government subsequently agreed that the proposal did not offer sufficient benefits to justify the additional burden being imposed on companies. There is also concern that there would be practical difficulties with implementation, such as the inability to confirm information provided, or to identify where it is missing, which would reduce the effectiveness of the proposal.

There are some other measures we can use. The European Union's fifth anti-money laundering directive required the UK to build a centralised automated mechanism, a bank account portal, designed to help law enforcement and AML supervisors to access information on the identity of holders and beneficial owners of bank accounts and safe deposit boxes. Following the UK's exit from the EU and the agreement of the trade and co-operation agreement in January 2021, the Government reviewed the case for building the portal. At that point, law enforcement did not believe there was a strong rationale for an alternative, centralised mechanism in order to support its work and the Government concluded that we should not build a bank account portal. UK money laundering regulations have been amended to remove redundant obligations.

I would be grateful if the hon. Member withdrew her amendment, but I would like to explore the issue further, certainly as it relates to company bank accounts, so we will perhaps return to it at a later stage.

Alison Thewliss: I thank the Minister for his consideration of this proposal. I would be interested to know what has changed since the previous consideration was arrived at that such provisions were not necessary. He suggests he will weigh that up and perhaps bring forward some amendments on Report, I beg to ask leave to withdraw the amendment.

Clause, by leave, withdrawn.

New Clause 26

REPORTING REQUIREMENT (OBJECTIVES)

"(1) The Secretary of State must publish an annual report assessing whether the powers available to the Secretary of State and the registrar are sufficient to enable the registrar to achieve its objectives under section 1081A of the Companies Act 2006 (inserted by section 1 of this Act).

(2) Each report must make a recommendation as to whether further legislation should be brought forward in response to the report.

(3) Each report must provide a breakdown of the registrar's annual expenditure.

(4) Each report must provide annual data on the number of companies that have been struck-off by the registrar, the number and amount of fines the registrar has issued, and the number of criminal convictions made as a result of the registrar's powers as set out in this bill.

(5) Each report must provide annual data on the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors.

(6) Each report must provide annual data on the total number of company incorporations to the registrar, and the number of company incorporations by Authorised Company Service Providers to the registrar.

(7) The first report must be published within one year of this Act being passed.

(8) A further report must be published at least once a year.

(9) The Secretary of State must lay a copy of each report before Parliament."—*(Seema Malhotra.)*

This new clause would add a requirement on the Secretary of State to report on the powers available to the Secretary of State, the Department for Business, Energy and Industrial Strategy, and Companies House in relation to the registrar's powers to achieve their objectives set out in clause 1.

Brought up, and read the First time.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss the following:

New clause 28—*Reporting requirement (strike-off powers)*—

"(1) Within one year of the day on which this Act is passed, and every three years thereafter, the Secretary of State must publish a report on the powers available to the Secretary of State and the registrar in relation to the registrar's powers under this Act to strike off a company.

(2) Each report in subsection (1) must include but is not limited to—

(a) whether the appropriate mechanisms are available to the Secretary of State to prosecute directors of companies struck off the Companies House register in relation to the Act, and to recoup money on behalf of creditors, and

(b) how much money has been returned to creditors as a result of the Act's provision for the registrar to strike a company's name off the register if the company does not change its address from the default address, including the proportion of this money returned to the Government.

(3) Each report must make a recommendation as to whether further legislation should be brought forward in response the report."

This new clause would add a requirement on the Secretary of State to report on the powers available to the Secretary of State, the Department for Business, Energy and Industrial Strategy, and Companies House in relation to the strike-off provisions in this Act.

New clause 63—*Annual report on activity under this Act*—

"(1) The registrar must publish an annual report on the implementation of, and activities under, the provisions of this Act which are relevant to the work of the registrar.

(2) The report mentioned in subsection (1) must include, but need not be limited to—

(a) information on the use of the registrar's powers under this Act, including in relation to—

(i) financial penalties imposed, and

(ii) the number of cases of unlawful activity or suspected unlawful activity identified by the registrar;

(b) details of the steps the Registrar has taken to promote the registrar's objectives under this Act; and

(c) the use of exemption powers for the Secretary of State introduced by this Act.

(3) The first report under subsection (1) must be published within six months of the date on which this Act receives Royal Assent."

Seema Malhotra: It is a pleasure to serve under your chairship today, Sir Christopher, and to speak to new clauses 26, 28 and 63, which stand in my name and that of my hon. Friend the Member for Aberavon. They draw

[Seema Malhotra]

together conversations we have had in Committee about the importance of transparency and feedback on the powers and measures in the Bill and would provide Parliament with a means of interrogating their effectiveness.

New clause 26 would introduce a reporting requirement in relation to the objectives in the Bill. The Secretary of State would be required to report on the effectiveness of the powers available to the registrar to achieve her objectives as set out in clause 1. To coin a phrase for which the Minister may want to take credit, what is the point of legislation without good implementation? I think we are all agreed on that point. It is therefore important to ask: how is Parliament going to know? How are we going to spot any issues? How will we know that either further measures need to be developed or new powers need to be brought in? The new clause would provide a way for us to have that transparency and feedback.

We have done our best to draft the new clause in such a way that the Minister will be able to simply accept it or come back to us with what he thinks needs amending. Importantly, it would require the Secretary of State to

"publish an annual report assessing whether the powers available to the Secretary of State and the registrar are sufficient to enable"

Companies House to achieve its objectives. Each report would make a recommendation as to whether further legislation should be introduced in response to the report and provide a breakdown of the registrar's annual expenditure, alongside data on the number of companies that have been struck off by the registrar, the number and amount of fines the registrar has issued and the number of criminal convictions resulting from the application of the registrar's powers as set out in the Bill. It would also provide data on the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors, which is extremely important.

We need to know what has emerged from the system in order to be able to interrogate how well referrals have been taken forward and how quickly and effectively that was done. Without that information, it will be much harder to interrogate what is happening on the other side and the effectiveness of law enforcement, which has been raised during our deliberations as a real weak point in our system that needs toughening up, strengthening and supporting with the resources required. New clause 26 is important to enable adequate parliamentary scrutiny and have the ongoing debate in Parliament about the effectiveness of the measures we are passing.

New clause 63 would introduce a similar reporting requirement in relation to the registrar's general activity in the Bill. We have laid out some of the measures, including financial penalties imposed, the number of cases of unlawful activity or suspected unlawful activity identified by the registrar, and

"the use of exemption powers for the Secretary of State introduced by this Act".

The report does not necessarily need to specify details of what has been exempted, but it is important that Parliament has an understanding of the use of those powers, the number of times they are used, and so on. We suggest that this second report is published within six months of the Bill receiving Royal Assent.

Turning to new clause 28, the registrar's new powers include the ability to change the address of a company's registered office where the registrar is satisfied that the company is not authorised to use the address. The Government say the registrar will have the power to change a company's address to Companies House's own address and then to strike the company off the register. Currently when fraudulent companies are struck off the register, there is little due diligence done, and I know the Minister has expressed concern about this matter. It does not result in significant repercussions for the directors of a company, and a huge number of companies—nearly 400,000 a year—are struck off because they have failed even to file accounts. Directors are not investigated for misconduct or held accountable, and we know these issues have been raised by R3 and others.

11.45 am

Martin Swain, the executive director of Companies House, said that Companies House is "aware" that

"Companies take advantage of the strike-off route to discharge themselves of debts and… for other purposes."

He acknowledged that the new power proposed by the Bill, which would allow the registrar to strike off a company for having an invalid address, may have

"an adverse impact on the system"

and give

"companies a route to use it for criminal activity or to fold without paying their debts."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 40-1, Q76.]

Chris Taggart told the Committee,

"Where a company has got assets… there is a downside to it being struck off"—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 27 October 2022; c. 101, Q192.]

Graham Barrow referred in evidence to a fraudulent director being able to register new companies after others had been struck off. We therefore tabled new clause 28, which would require the Secretary of State to publish a report a year after the Act is passed and subsequently every three years on whether appropriate mechanisms exist to

"prosecute directors of companies struck off the Companies House register"

and

"recoup money on behalf of creditors".

It would require the Secretary of State to report on

"how much money has been returned to creditors as a result of the Act's provision for the registrar to strike a company's name off the register".

The principal purpose of the new clause is to ascertain whether any assets from companies struck off the register are being recouped on behalf of the creditors, so that the directors of those companies are properly penalised and held accountable for their actions, and creditors are not left wrongly out of pocket. I would be grateful for the Minister's response on these issues. Importantly, new clause 28 requires that the report makes recommendations as to whether further legislation is needed to reform the automatic strike-off process, so that an alternative process could instead be adopted and Parliament could act swiftly in relation to recommendations.

Alison Thewliss: I rise to support the new clauses in the name of the official Opposition, because Parliament will need to keep a close eye on how a lot of things in

this Bill are being implemented and whether they are effective at tackling economic crime. We had a lot of debate in previous sessions about powers versus duties in the Bill and said, "If they are powers, that is one thing but if they are duties, that is quite another." If these powers are being exercised, we need to be certain of that and keep a close eye on this Bill. These useful new clauses would allow Parliament to keep a close eye on these things, because they would require the Secretary of State to publish these annual reports to give more granular and specific detail on whether the measures brought forward in the Bill are being used and are effective.

Dame Margaret Hodge (Barking) (Lab): It is a pleasure to serve under your chairship, Sir Christopher. I rise to make the simple point that the new clause is not a technical amendment; it is about an issue of principle. It is about transparency and accountability. It is not a provision that improves things at the margin; it is about making the legislation fit for purpose. Without it, the legislation will not be fit for purpose.

Throughout my history of learning about dirty money and money laundering, it has been absolutely clear to me that we have a range of tools already in legislation. As we do not have any accountability to Parliament as to how and whether those tools are employed, we do not know how effective we are in the battle against dirty money. Let me give three examples. There is now a new bit of legislation on unexplained wealth orders; it is the first time that I have known Ministers to agree to an annual report to Parliament. They agreed to it when we did the emergency legislation. I have been arguing for that for years, so I was pleased to see it, but until that moment we did not know, and we have not seen the report yet.

A better example is golden visas. We are still waiting for the report on golden visas, how they were abused, misused and used during that period, and who was let into the country on one. Another example is the amount of money that has been frozen from people who have been sanctioned by this Government. We do not have a clue how much that is. The Government put out a figure the other day for how much Russian state money had been frozen—£18 billion—but we do not have a clue how much money we have managed to get off some of the characters we know are sitting on billions.

If there is going to be effective legislation, we need clear transparency and proper accountability. That is something that the Opposition feel incredibly strongly about. We will be pressing the new clause to a Division, because it is a sensible, pragmatic and practical provision that should be in the Bill.

Kevin Hollinrake: I thank the hon. Members for Feltham and Heston and for Aberavon for tabling their new clause. I also thank the right hon. Member for Barking and the hon. Member for Glasgow Central for their contributions. I agree with much of what they said. As they know, I fully agree that Parliament should be regularly updated on the implementation and impact of this legislation. What gets measured gets done, and it is vital that we know what is being done with this legislation.

I will speak to new clauses 26 and 28 first, because I think there may be a duplication of things that exist already. Much of the information suggested by new clause 26, such as Companies House expenditure and the numbers of companies incorporated and struck off, is already published in the Companies House annual report. Companies House already reports publicly on its activities and its regular statistical releases on gov.uk. On new clause 28, through dissolution a company is brought to a point at which it ceases to exist and ceases to appear on the register. A company can seek its own voluntary strike-off, or it can be struck of compulsorily by the registrar. In principle, that process takes place when there is reason to believe that the company is no longer in operation or carrying on business. In both cases, statutory processes ensue whereby the public generally are informed that the dissolution is in train by publications in the *Gazette*. There are opportunities for third parties to intervene and object to a company being dissolved.

Concerns have been expressed that unscrupulous companies choose to give the impression that they are defunct in order to precipitate their dissolution and evade creditors. That concern is ultimately misplaced, as any assets left in a company following its dissolution will not be held by the company any more, and will be passed to the Crown, bona vacantia—as ownerless property. It is also important to note the effects of the Rating (Coronavirus) and Directors Disqualification (Dissolved Companies) Act 2021, which amended the Company Directors Disqualification Act 1986 by introducing a mechanism for disqualifying directors of dissolved companies.

It is also worth noting that the 1986 Act includes provision not only for disqualifying directors but for ordering disqualified directors to pay compensation. That provision is in section 15A of the Act and, as amended by the 2021 Act, covers directors of both insolvent companies and dissolved companies. If a director is disqualified and the conduct for which they were disqualified caused loss to the creditors of an insolvent or dissolved company, the director can be ordered to pay compensation either for the benefit of specified creditors or by way of a contribution to the assets of the company.

The Bill introduces a new circumstance under which the registrar might seek to strike off a company that persistently fails to provide an appropriate registered office address. I assure Members that the registrar will initiate dissolution in those particular circumstances only after having assessed the risks of doing so. The normal notification procedures, by way of the *Gazette* and Companies House webpages, will apply.

As noted, Companies House already makes data on company dissolutions regularly available. I question what benefit the reporting proposed by the new clause would add, as it is not clear to me that the information it covers would necessarily be available to the Secretary of State. However, I acknowledge the concern about the manner in which compulsory strike-off operates. I have asked my officials to advise me on the extent to which the Bill's new information-sharing provisions might improve safeguards and transparency in this area. I am of course happy to engage further with Members on this topic in due course.

Most of the comments related to new clause 63. I absolutely agree that there needs to be a mechanism by which progress made on the implementation of the provisions in the Bill is reported to Parliament. There should

[Kevin Hollinrake]

be regular reporting on the registrar's use of the new powers. I also accept that it is important to give Parliament an early opportunity to scrutinise how quickly Companies House implements the reforms.

I believe, however, that the new clause requires further consideration. As drafted, it has the potential to place unintended obligations on the registrar. For example, it will require the registrar to report on the imposition of financial penalties before the commencement date of the regulations. It also requires the registrar to indefinitely report on the implementation of the legislation, even if it is completed in the near future.

With the agreement of the Committee, I would like to ask my officials to consider the new clause further. I hope Members are reassured that we will give it consideration. If the new clause is withdrawn, we will have further discussions about what we might put in its place.

Seema Malhotra: I thank the Minister for his comments about the new clauses. I appreciate his response on new clause 63 and very much look forward to hearing from his officials about the proposed reports, but will he tell us when we will hear from them? None of us wants the measure to be lost in the course of proceedings, and we do not want it to be left to the Lords, so I would be grateful if he can tell us when he expects us to hear a response. Assuming that it will be positive, I am happy not to press new clause 63 to a vote.

On new clause 26, the Minister did not respond with the detail that I was expecting. I understand that some data is already published. We can have an argument about whether it is there, but it is easy for there to be a summary. If Parliament is looking at one document, it will want that data. It will want to review the later data in the context of the more procedural data that Companies House already publishes. I cannot see that it is onerous to publish a summary of data that already exists.

Dame Margaret Hodge: In the Minister's response to my hon. Friend, he said that there was duplication of subsections (1) and (3). All the other things that were listed in subsections (4), (5), (6), (7), (8) and (9) are issues on which we want an annual report to Parliament because that shows us whether the legislation is working. If there is duplication, it is not the end of the world. There is a lot of duplication in our legislation—I am sure, Sir Christopher, that you are an expert on that—but that is not a sufficient argument to put the whole new clause out of the Committee's consideration.

12 noon

Seema Malhotra: My right hon. Friend is absolutely right; indeed, that is precisely where my concerns lay. The Minister simply talked about the relatively small part of the reporting requirement. If there were an argument as to whether to include it or not, my argument would continue to be that that is relevant to have in the context of the full reporting requirement that we are arguing for. There is not anywhere else in the legislation—unless the Minister can direct me to it—that will provide Parliament with such a report.

Kevin Hollinrake: Just to abbreviate the debate, much of the information in new clause 26 is already reported by Companies House in its annual report. I think it is being said that the key measures are the additional ones in new clause 63, which relate to what the Bill's provisions will give effect to. I am happy to return to the Committee before Report to say where we feel the new clause needs to be addressed. If we do not do it at that point, the hon. Lady is welcome to table an amendment on Report.

Seema Malhotra: I thank the Minister. To clarify, he referred to coming back on new clause 63; my question is in relation to new clause 26 and whether and how the later subsections are all going to be covered by the Companies House annual report. It would be helpful if he responded to that, because currently I am not clear that they are all covered.

In new clause 26, we are asking for an assessment of whether

"the powers available to the Secretary of State and the registrar are sufficient to enable the registrar to achieve its objectives"

and about

"making recommendations as to whether further legislation should be brought forward in response to the report."

Yes, there may be details elsewhere, but they could be summarised for the ease of use of the report. The new clause requires

"a breakdown of the registrar's annual expenditure"

and

"data on the number of companies struck off".

That information may well also be elsewhere. Will the Minister confirm whether

"the number of cases referred by the registrar to law enforcement bodies and anti-money laundering supervisors"

and so on is all going to published elsewhere?

Dame Margaret Hodge: May I also draw the Minister's attention to new clause 26(6), which is important? It asks for an annual report of the total number of companies incorporated to the registrar and

"the number of company incorporations by Authorised Company Service Providers".

The purpose of that particular bit of information relates to our concern about the integrity and honesty of company service providers. I do not believe that is covered in the Companies House report. I accept that there may be some duplication—we got that wrong—but there are issues of huge importance in terms of accountability and the integrity of the data that we would lose if new clause 26 were simply ignored.

Seema Malhotra: I thank my right hon. Friend for explicitly emphasising the importance of subsection (6). She is absolutely right. The Minister will be mindful of the importance of transparency in respect of the issues relating to incorporations by authorised company service providers. Will he confirm that all the subsections in new clause 26 will be explicitly covered elsewhere? If not, we will want to pursue the matter of how that information is going to be published by Companies House and the Secretary of State.

Kevin Hollinrake: Nobody is ignoring the comments that have been made. Nobody is keener than I am to make sure that there is proper scrutiny of what Companies House does with the powers. We should absolutely ensure that.

On the requirement for the Secretary of State to report on the use of the powers, any Secretary of State appointed by any Government, be they Labour or Conservative, will of course always review the powers needed and whether there is a need to legislate further. It is not right to dictate in legislation that the Secretary of State should do this, that or the other and I would not expect any Opposition to require that.

Companies House already reports on the number of companies incorporated and struck off—that is already in the annual report. It is an interesting point about corporate service providers; the right hon. Member for Barking has concerns in that regard, and I do too. I suggest that I should look at the matter further with officials and come back to the hon. Member for Feltham and Heston well in advance of Report—outside the tabling time—and if we are not going to do anything, she can table a similar new clause. If we are going to do something, that might address her concerns or she might need to go further. Those options are open to her and I hope she will give us time to try to address these matters to the House's satisfaction.

Seema Malhotra: I thank the Minister for his comments. He has said he will review the issues addressed in new clauses 26 and 63 with his officials. There may well be areas in which, on further reflection, he agrees with us that more could be done.

On the Minister's comment about the Secretary of State being able to introduce legislation at any time, the point that was missed was that we know the speed with which we have to respond to economic crime. If we think back to 2016, we can see that we did not act fast enough—we have not acted fast enough in the past six years—so there is strong merit in having a mechanism that speeds up any requirements for future legislation through a report that can be reviewed and followed up on.

If the Minister is committing to review the matter and come back to us, we accept that. We would like to be involved in the discussions, perhaps after he has had an initial discussion with his officials. If there is a way to move forward with consensus, perhaps prior to Report, that could be a positive way forward. I therefore beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 29

REPORT INTO THE MERITS OF A FUND FOR TACKLING ECONOMIC CRIME

"(1) The Secretary of State must produce a report into the merits of a fund for tackling economic crime.

(2) The report must consider the case for penalties paid to the registrar to be ringfenced and used solely for the purposes of tackling economic crime.

(3) The report must be laid before Parliament within six months of this Act being passed."—*(Dame Margaret Hodge.)*

This new clause requires a report into the merits of a fund for tackling economic crime to be laid before Parliament.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 9.

Division No. 11]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	
Hollinrake, Kevin	Stevenson, Jane
Hughes, Eddie	Tugendhat, rh Tom

Question accordingly negatived.

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.'"—*(Stephen Kinnock.)*

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.

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 7, Noes 9.

Division No. 12]

AYES

Byrne, rh Liam	Morden, Jessica
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	
Malhotra, Seema	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	
Hollinrake, Kevin	Stevenson, Jane
Hughes, Eddie	Tugendhat, rh Tom

Question accordingly negatived.

Seema Malhotra: On a point of order, Sir Christopher, is it procedurally correct for my right hon. Friends the Members for Birmingham, Hodge Hill and for Barking to speak before I make my comments?

The Chair: People can speak in whichever order they wish. If the right hon. Lady and the right hon. Gentleman rise before you do, I will call them first. Let's suck it and see.

New Clause 44

HMRC ANTI-MONEY LAUNDERING FUNCTION

"(1) The Commissioners of Revenue and Customs Act 2005 is amended as follows.

(2) After section 5 (Commissioners' initial functions), insert—

'5A Commissioners' Anti-Money Laundering Functions

(1) The Commissioners shall be responsible for anti-money laundering supervision.

(2) The Commissioners shall treat the function in subsection (1) as a priority equal to the functions in section 5.'"—*(Dame Margaret Hodge.)*

This new clause would require HMRC to prioritise its AML supervisory function.

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 72—*Office for Professional Body Anti-Money Laundering Supervision: powers and duties*—

"(1) The Secretary of State must by regulations set out a further power and duty for the Office for Professional Body Anti-Money Laundering Supervision.

(2) The power referred to in subsection (1) is the power to impose unlimited financial penalties on Professional Body Supervisors that fail to—

(a) adopt an effective risk-based approach to anti-money laundering supervision;

(b) impose proportionate and dissuasive sanctions for non-compliance with anti-money laundering requirements; and

(c) fail to separate their advocacy and regulatory functions.

(3) The duty referred to in subsection (1) is the duty to publish the details of any sanctions imposed on Professional Body Supervisors, and its reviews of Professional Body Supervisors with data disaggregated by body rather than by sector."

Dame Margaret Hodge: I will speak to new clause 72 first and come back to new clause 44. The Minister and the Government will know that time and again we have said we are concerned about the way in which professionals are checked, supervised and regulated in the financial services sector and that the current system is not fit for purpose. I think we all recognise that it is the professionals who play a key role in enabling the fraudsters and money launderers to successfully commit economic crimes. It is they who either facilitate, collude in or enable the wrongdoing.

12.15 pm

I accept, as everybody in the room does, that most professionals are straightforward, honest people who want to do a good job, but the focus of our work is to ensure we have in place a smart regulatory framework that captures the wrongdoers. This is not a small issue. The £290 billion lost in fraud and money laundering is a massive sum, comprising 14.5% of GDP. It needs to be taken really seriously. We have experienced during the course of consideration of this Bill a rejection of what I consider to be pretty sensible, pragmatic amendments. This is yet another. I hope the Minister does not think that just because it has been moved by the Opposition it is not worthy of proper consideration.

I would also like to speak from the point of view of the professionals. I spend a lot of my time talking to accountants and lawyers who are active in this area. Everybody wants the bad apples knocked out. It is in the interests of the professionals themselves to ensure there is proper trust and confidence in the integrity of those who work in the industry. The Office for Professional Body Anti-Money Laundering Supervision—OPBAS—is responsible for supervising the professional body supervisors. This is complete gobbledygook, but I hope Members understand what I mean. It is the top organisation, which has the responsibility for ensuring that all the supervisory bodies do the job properly and that they properly implement the anti-money laundering regulations.

The regulations require all the professionals working in this area to have systems and practices in place to identify suspected corrupt wealth, to know their customers properly and have good record keeping and so on. They are very obvious systems that anybody who wants to work honestly would have in place. OPBAS supervises 25 organisations. Of them, 22 are in the legal and accounting profession and one is His Majesty's Revenue and Customs, which relates to new clause 44.

HMRC supervises trusts and company service providers about which we have had a long debate. They include estate agents, letting agencies, high-value dealers, on-market dealers, accountancy professionals who do not belong to any professional body, and finally the Gambling Commission. The Financial Conduct Authority supervises the rest. HMRC in particular does not do a proper job. It does not see it as part of its function to do the supervision.

Kevin Hollinrake: Can I just say something from my own business experience? We had two very thorough inquiries from HMRC, which spent days in our office looking at our money laundering procedures. I am pleased to say that we passed the test, but HMRC really does take its job seriously.

Dame Margaret Hodge: I do not know whether I have the quote here from the previous HMRC permanent secretary—I will dig it up and send it to the Minister—but he actually said, in evidence to the Treasury Committee I think, that he did not quite understand why it was part of his job to do the supervision. I am not quoting him accurately, but the purport of what he said was that they see it as marginal and a sort of add-on—I think he used the word "add-on"—to their main function, which is to get the money in.

The position and reputation that professionals enjoy through membership of professional bodies is really important. Therefore, the professional bodies themselves should be taking steps to minimise and attack suspicious activity where it takes place, and they should be calling it out. It is in everybody's interest to get the bad apples.

Let me give some evidence of the current failings as we see them. The 2021 review of OPBAS—the body responsible for all the professional bodies—found that 81%,

or eight out of 10, were not supervising their members effectively. This review was done only on the legal and accountancy professions. Half the supervisors did not ensure that their members were taking timely action to improve their money laundering procedures where they were found wanting. A third of the supervisors did not have effective separation between the advocacy role and the supervision role, which I think is an important aspect. For a proper review, one would separate bodies undertaking supervision and bodies undertaking advocacy to ensure there is no conflict of interest.

Some 60% of the firms visited by the Solicitors Regulation Authority in 2021 were failing to comply fully with their duties to have adequate AML controls in place. OPBAS found that nine supervisory bodies of MLR are engaging in what it calls "low levels of enforcement". The way in which those bodies respond when they find something going on is to have a quiet chat rather than issue fines and publicly censure lawyers for breaching the MLR rules. The highest ever AML fine for a law firm by the SRA was £232,500, and it was for Mishcon. If that fine had been levied by the FCA under similar powers, it would have been £5.4 million.

The Council for Licensed Conveyancers, another group of professionals who are active in this area, imposed zero fines, despite finding that two out of three of the firms it is responsible for supervising were non-compliant with AML regulations in 2019-20. To use another example, the Law Society of Northern Ireland imposed just one fine—of £1,750—in the year 2019-2020, despite it finding 228 cases of non-compliance. That is a considerable body of evidence, if I may say so, that shows that the current system is broken and not fit for purpose.

The Chartered Institute of Taxation, a group I work with a lot, found that a third of the firms visited were non-compliant, but only four firms were disciplined for failure to provide renewal forms by the required deadline and fined for failure to submit appropriate criminality check certificates or to deal with the action points that had been raised with them in the review by CIOT of their AML procedures. In three of the four disciplinary cases by CIOT, a financial penalty was imposed, and only in the fourth was the member suspended.

I know that the Government are looking at the supervisory framework but, as is the way with Governments, that could take forever. We want to implement these reforms swiftly, so we must have some assurance and confidence, particularly because of the outsourcing of the checks on individual companies, that the professionals will seek out the miscreants in their profession. We cannot wait for the review, to put it bluntly. With these measures, we have taken the least of all the options the Government have put forward and proposed it for legislation. If the Government, on reflection, want to come back with a tougher regime, that is fine, but at least we would have the minimum in place as we enact the legislation and the reform of Companies House. Our new clause says, "Action now. Toughen up the powers and duties of OPBAS—introduce greater transparency into the system, and comeback if that is needed." We are suggesting new powers and duties for OPBAS. The power is

"to impose…financial penalties on Professional Body Supervisors that fail to…adopt an effective risk-based approach to anti-money laundering supervision…impose proportionate and dissuasive sanctions for non-compliance…and…separate their advocacy and regulatory functions."

This is minimal, sensible and desperately needed now if we are to go ahead, with the speed that we all want, with the implementation of the legislation.

Seema Malhotra: I do not propose to spend much time speaking in support of the new clauses. The arguments made by my right hon. Friend the Member for Barking have broadly said it all. She highlighted the high levels of non-compliance, the very low levels of fines and disciplinary measures, and the frustration of the sectors in terms of tools to really root out the rogue players who need action taken against them. The new clauses would be very effective and are much needed, for the reasons outlined—in trying to get action now, toughening up powers and providing greater transparency. For the reasons that I have outlined, I totally agree that the Bill is the right place for these measures. We should not have to wait and wait and wait for what is likely to come and will almost certainly draw the same conclusions.

New clause 44 would have the effect of amending the Commissioners for Revenue and Customs Act 2005 such that the commissioners would be responsible for anti-money laundering supervision, and it states:

"The Commissioners shall treat the function in subsection (1) as a priority".

New clause 72 would introduce provisions requiring the Secretary of State, by regulations, to set out a further power and duty for the Office for Professional Body Anti-Money Laundering Supervision. This is defined as

"the power to impose unlimited financial penalties on Professional Body Supervisors that fail"—

that fail—

"to…adopt an effective risk-based approach to anti-money laundering supervision…impose proportionate and dissuasive sanctions for non-compliance with anti-money laundering requirements …and …separate their advocacy and regulatory functions."

We want stronger action taken against economic crime, not least because we know the scale at which it comes through the cracks, with the damage that it does to our economy. It seems to me that tightening up the roles and the performance of professional body supervisors and HMRC in some way is an opportunity that we should not miss.

The proposed clause would also insert a duty

"to publish the details of any sanctions imposed on Professional Body Supervisors, and…reviews of Professional Body Supervisors with data disaggregated by body rather than by sector."

The sum of the two new clauses is to ensure the urgent improvement of the UK's anti-money laundering sector. Throughout our witness sessions and Committee debates, we have heard about the lack of effectiveness of our AML system. I think that is a view also supported by the Minister. The changes are a much-needed strengthening and safeguarding against potentially rogue corporate service providers, the third parties who act on behalf of companies and can carry out the identity verification of directors.

12.30 pm

New clause 44 has the urgent and needed effect of ensuring that the HMRC commissioner prioritises the operation of AML supervision. New clause 72 expands the powers of OPBAS and introduces provisions for much harder sanctions against professional body supervisors.

In the Treasury's June review of the UK's AML supervisory regime, the Government recognised that that regime needed much improvement. Consultation after consultation is not going to cut it. We have an opportunity now to do something specific, proportionate and important to improve the Bill's outcomes.

Alison Thewliss: I support the new clauses. The anti-money laundering supervisory duties are incredibly important, as they are part of firmly closing the door on economic crime. It is important that we use this opportunity to strengthen the powers in the Bill. Frankly, if we do not do it now, when will we get round to it again?

New clause 44 asks HMRC to prioritise its AML supervisory function. That seems sensible. I would note that some additional resources will be needed; the Treasury Committee's economic crime report points to the fact that some 30,000 businesses fall into this bracket.

I note the ongoing review of OPBAS. I do not want the Minister to get ahead of the review, but it might be useful to get a perspective on the direction of travel. At the most extreme end of that review—the Committee heard evidence on this point recently—the Government could propose that OPBAS loses its AML supervisory function. It would be interesting to hear the Minister's perspective on where he thinks the review will end up. It is quite awkward that the review does not tie in with the Bill's timetable: the review is ongoing, we are legislating here and we do not quite know where it will end up.

I wonder whether the Minister could clarify a point that the FCA's chief executive, Nikhil Rathi, could not clarify when he came to the Committee. The most recent report about the performance of OPBAS is dated September 2021. It feels to me that we are overdue a report on the effectiveness of OPBAS. Is the delay a result of the ongoing review or is there some other reason for it? The September 2021 report stated that:

> "The vast majority (just over 80%) of PBSs had not implemented an effective risk-based approach. Only a third of PBSs were effective in developing and recording in writing adequate risk profiles for their sector".

The report also raised various other points about the effectiveness of OPBAS. It has been operating for several years now, but we still do not feel that it is doing what it should to supervise and ensure that the anti-money laundering responsibilities of those it supervises are carried out. If the Minister does not have information on the status of that report today, I would be perfectly content for him to write to me.

Maybe OPBAS has upped its game incredibly since the last report came out—we just do not know. That also hinders our approach to the Bill, because we do not know whether these functions are being adequately carried out. While the FCA chief executive was able to say that there has been improvement, he was not able to say what that improvement looks like. Have 100% of PBSs now implemented an "effective risk-based approach" or is it 50%, or somewhere in between? We just do not know.

It is important that we use all the opportunities we have in the Bill to up the resources for the FCA, OPBAS and HMRC to carry out their functions. As I say, anti-money laundering supervision is the key to ensuring we close the door on money laundering. Those bodies are meant to stop it, and if we do not tighten the legislation and provide the resource there is very little point having the Bill.

The Minister for Security (Tom Tugendhat): I thank the right hon. Member for Birmingham, Hodge Hill and for Barking for their amendments, and I welcome the effort and energy they put into the oversight mechanisms that are so important in ensuring that the Bill is effective. That is the nice bit. They know what is coming next.

I do agree enormously on the importance of supervision, which has been emphasised, but I am afraid I cannot support new clause 44. Despite what the right hon. Member for Barking says, HMRC already has an anti-money laundering supervisory function and it does take its responsibilities extremely seriously. It supervises nine sectors and is the default supervisor for trust and company service providers where they are not already subject to supervision by the FCA or one of the 22 professional bodies.

Dame Margaret Hodge: I wish I had brought some of my previous notes with me. What evidence does the Minister have of that, apart from HMRC telling us that?

Kevin Hollinrake: It visited my business!

Dame Margaret Hodge: I am amazed that it did. Is there evidence of the number of visits or assessments carried out? I can remember a quote from the previous permanent secretary, who said, "It is not our core business."

Tom Tugendhat: The core business of HMRC is raising money and ensuring that that money is clean. That is absolutely essential. Until HMRC works out whether or not the money is clean, it is hard to raise money. I would be hard pressed to describe my hon. Friend the Under-Secretary as a dodgy individual, but if he is going through these AML checks I think it is a good indication that HMRC is taking such matters very seriously. As I say, the checks are already being done and the responsibilities are held by branches of the Government, including HMRC and other professional bodies.

The amendments are therefore a duplication. The reality is that HMRC carried out 3,500 formal compliance inspections with businesses last year and issued over £2.5 million of penalties in 2021-22. That demonstrates that the business checks are not symbolic. They are not minor. They are extremely serious. HMRC takes them very seriously. I think the Government is entirely in agreement with the right hon. Lady that these checks need to happen, but the scale and type of reform to improve effectiveness and solve these problems is not yet clear. The Treasury will no doubt have many views when its formal consultation on the possible options opens. The consultation will ensure that the risks and implications of each option are fully understood before the Government commit to any particular model. The right hon. Lady knows very well that we need to get this right, not just to be quick.

On new clause 72, I welcome the desire to strengthen the UK's anti-money laundering regime. I also share the support for the work OPBAS does. However, it is not yet the right time for the proposed changes, and I cannot support the suggested amendment. In June of this year, the Treasury published a review of the UK's anti-money

laundering regime, which considered the performance of the supervisory regime, including the work of OPBAS. It concluded that although there have been significant improvements in recent years, further reform is necessary to ensure effective supervision across the regulated sector. The review set out four options for reform, ranging from strengthening OPBAS to structural reform to establish a new statutory supervisor. Further policy work to develop these options is already under way, and the Treasury has committed to publishing a consultation before a decision on the direction for reform is made. It would be wrong to preclude the ongoing policy analysis and public consultation by making the changes proposed by the amendment.

Dame Margaret Hodge: I heard the Minister's words with gloom. Initially, the Government put out a consultation with four options, and to speed it up, we decided to go with the weakest of the options—the one to which there would be the least objections. What I think I just heard him say, which is so gloomy, is that the Government will now publish a further consultation. All this stuff in the Bill will come into being and we will have absolutely no assurance that proper checking, regulation and supervision will be carried out on company service providers.

Tom Tugendhat: As I say, this is really a matter for the Treasury, and it has committed to publishing a consultation before the decision is made. It would be wrong of me to preclude the ongoing policy analysis and public consultation by making—

Seema Malhotra: May I clarify whether the Minister has had any discussions with Treasury colleagues about the matter and raised his concerns? Have they acknowledged the need to act much faster?

Tom Tugendhat: I have had many conversations with Treasury colleagues in recent weeks and months on various aspects of the challenges that economic crime poses to the UK. Many of us are committed—in fact, the Treasury is very committed—to ensuring that economic crime is reduced in this country. The support that the Treasury has given in various different ways has resulted in many things, including a very successful operation conducted this morning by the Metropolitan police that resulted in the arrest of many people connected to economic crime. That may sound tangential on the grounds that it is about fraud, but the reality is that all of it is connected. We see a very strong overlap between money laundering, fraud and various other different forms of economic crime. The Treasury, unsurprisingly, is extremely committed to making sure that economic crime in this country reduces. The Home Office and the Department for Business, Energy and Industrial Strategy are absolutely committed to making sure that we considerably reduce the level of fraud in this country.

What is important now is to ensure that we make OPBAS as effective as possible, and that we look for some of the reforms that we have started to highlight, because that means that the changes required by the amendment will be unnecessary. I hope that we can focus on that aim.

I have just been given a statistic that records that in October 2022, HMRC named 68 estate agents that had breached anti-money laundering regulations, and fined them a collective total of £519,000. We can see that the supervision of estate agents is not just conducted by my hon. Friend the Under-Secretary but by many others around the country and is taken extremely seriously.

Dame Margaret Hodge: I hear what the Minister says, but I think we will just be setting up another duff register unless we get the regulation of those company service providers toughened up at the same time as we introduce the Bill. I want to press new clause 72 to a vote.

The Chair: You will not be able to do that now, and in the meantime, you must seek the leave of the Committee to withdraw new clause 44.

Dame Margaret Hodge: Thank you very much, Sir Christopher. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 50

REQUIREMENT FOR UK-RESIDENT DIRECTOR

'(1) The Companies Act is amended as follows.

(2) In section 156B of the Companies Act 2006, inserted by section 87 of the Small Business, Enterprise and Employment Act 2015, after subsection (4) insert—

"(4A) The regulations must also include provision to require all companies to have at least one director who is ordinarily resident in the UK."'—*(Stephen Kinnock.)*

This new clause would amend the Small Business, Enterprise and Employment Act 2015 to require all companies to have at least one person who ordinarily resides in the UK as a director.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

New clause 49 sought to ensure that the provisions of the Small Business, Enterprise and Employment Act 2015, which require company directors to be natural persons, would be brought into force. The Opposition welcomed the Minister's commitment to introducing the necessary regulations to enact that measure in the near future, and we are very pleased to have that on the record. At the same time, however, the Opposition remain convinced that there is much more that the Government could and should be doing to reduce the risks of money laundering and economic crime within the company registration requirements. The new clauses we are about to discuss provide a number of different means by which the law could be further strengthened against the risk of such abuses.

New clause 50 would make it a requirement that every company registering in the UK has at least one director who is ordinarily resident here. I have already spoken in Committee about the risks that often come with a system that allows companies to register in places to which they have a tenuous connection in terms of actually doing business there. Although there may be certain limited circumstances in which it might be legitimate for a company with no UK-based directors to register with Companies House, I am struggling to see what they might be. On the other hand, I can think of plenty of reasons why the fact that a company has no UK-based directors might be considered a red flag for money laundering risks, calling for additional scrutiny from the registrar.

12.45 pm

In due course, the Committee will consider a separate new clause, tabled by my right hon. Friend the Member for Barking, that would create new criminal offences involving a failure to prevent fraud, false accounting and money laundering. Without getting into too much detail on the specifics of the proposals, the relevant point for the purposes of new clause 50 is that similar offences already exist in UK law. The Bribery Act 2010 was the groundbreaking law in that respect. The precedent that it set for holding company directors liable for a failure to prevent certain criminal offences within their organisations was built on by the Criminal Finances Act 2017, which established a similar offence related to tax evasion.

Important as those developments in the law undoubtedly were, it is not hard to see the difficulties involved in enforcing those laws against individuals who spend little if any time in the UK. Successful prosecutions may depend on the co-operation of other Governments, whose laws on corporate criminal liability may not be as robust as our own. They may also be subject to lengthy and expensive extradition proceedings. New clause 50 would provide a simple safeguard in those cases. Ensuring that at least one company director ordinarily resides in the UK and is therefore subject to UK law could make it much easier for offences involving corporate criminal liability to be enforced. At the very least, it should serve as an effective deterrent, for instance by making third parties who act as company directors for a fee think very carefully about what kind of clients they are prepared to act on behalf of.

Kevin Hollinrake: I thank the hon. Member for his amendment. As he set out, new clause 50 would require all companies to have at least one person who ordinarily resides in the UK among their directors. The proposal has been considered and rejected before. I am aware that some other jurisdictions have similar provisions, but the UK has chosen not to enact that type of measure for two reasons. First, it goes against the long-standing principle that any legitimate global citizen can do business freely in the UK. If we mandate a UK resident director, we are effectively asking an overseas investor looking to set up a business here to have a UK business partner. That sounds to me very much like something that the Chinese state might do. We do not consider that it is right for our open economy.

Secondly, we are not persuaded that there are enforcement or accountability benefits that will lower levels of corporate abuse or economic crime. The reforms in the Bill, such as identity verification, intelligence sharing and greater information querying, will help to deliver much-increased transparency and accountability. That will help us to discover rogues faster, share their details more quickly, hold them to account and, where necessary, close down their businesses, or indeed ask questions of them before we even allow them to incorporate here.

It is my expectation, as the hon. Member for Aberavon has set out, that Companies House will work with the NCA and others to put in place the systems to raise red flags so that when we see applications to incorporate companies from individuals from certain jurisdictions, more questions will be asked. If the registrar is not persuaded by the responses, she may simply say no. The addition of a UK resident director will not provide additional value and I very much hope that the hon. Gentleman will withdraw his new clause.

Stephen Kinnock: I thank the Minister for his remarks. We are talking about how to make it as easy as possible for those red flags to be clear. If we were to do exception reporting, there may, of course, be a clear explanation in certain circumstances for why there is not a single UK-based company director and perfectly legitimate reasons for that. We think that it would be better to do the exception reporting on that basis, so that we are casting the net and identifying red flag areas because of the nature of the company directors and where the risk would appear to be.

I take it from the Minister's remarks that there is not a great deal of room for negotiation on that point. However, we are trying to put forward a sensible and pragmatic solution. Can the Minister say any more about how to look through the telescope in terms of exception reporting? We argue that exception reporting could be conducted on the basis of explaining why there is not a single UK-based company director while maintaining the blanket provision that there should always be such an individual in order to minimise risk.

Kevin Hollinrake: That is exactly how we expect the process to operate. If there are red flags of concern—an exception report, as the hon. Gentleman calls it—the registrar can ask further questions and may deny that company the right to establish itself in the UK. I think those checks and balances are in place, and of course, as hon. Members have said, it is very important that those opportunities are used by the registrar. I am very keen to ensure that we have the opportunity to scrutinise the use of those powers.

Stephen Kinnock: I thank the Minister for those points. I see that we will agree to disagree on this. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 51

REGISTRATION REQUIREMENTS: UK-BASED ASSETS HELD BY OVERSEAS ENTITY

'(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In Schedule 2—

(a) in sub-paragraph (a) of paragraph 2, for "and" substitute "or";

(b) after sub-paragraph (a) of paragraph 2 insert—

(aa) is a beneficial owner of any UK-based assets held by overseas entity, and".'—*(Stephen Kinnock.)*

The intention of this new clause is to broaden the scope of registration requirements for overseas entities, as set out in the Economic Crime (Transparency and Enforcement) Act 2022, to include the beneficial owners of any UK-based assets owned by an overseas company, as well as the beneficial owners of the company itself.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

The purpose of the new clause is to close what appears to be a loophole in the current requirements on the registration of overseas entities that own property in the UK. The case for the new clause is simple. Under the current rules, as set out primarily in the Economic Crime (Transparency and Enforcement) Act 2022, a

foreign company that owns property or land in the UK is required to declare the beneficial ownership of the company itself. It is, however, unclear whether it would also be required to disclose the ultimate beneficial owner of any property owned by that company.

In recent years, we have seen ample evidence of how easy it can be—

Kevin Hollinrake: I am trying to understand the new clause. How could someone be the beneficial owner of a company and someone else own the assets? If the beneficial owners own the company, how can a different beneficial owner own the assets?

Stephen Kinnock: According to our interpretation, schedule 2 of the 2022 Act is unclear about whether a company would be required to disclose the ultimate beneficial owner of any property owned by that company. Our worry is that there is a loophole in the law that talks about the beneficial owner but does not give us the tools to obtain disclosure of who is the ultimate beneficial owner of the property.

In recent years, we have seen ample evidence of how easy it can be for money launderers and the enablers of economic crime to exploit any grey area, perceived or actual, in the laws that apply to them. Therefore it is essential that the law is absolutely crystal clear on that point. It is about tightening up the law as it stands.

We already know that the beneficial ownership of property and other assets is often shrouded in layer on layer of corporate secrecy. In its official guidance and examples of best practice on beneficial ownership, the Financial Action Task Force draws a distinction between the ownership of a company on the one hand and the ultimate beneficial ownership of any assets held by that company on the other. The guidance makes it clear that they are not necessarily the same thing. One of the most salient differences is that although a company can be the legal owner of a property, the ultimate beneficial owner of that property will always be a natural person, or, in layman's terms, a human being. It is not clear whether the current legal framework for the register of overseas entities is sufficiently clear on that point.

To make a significant difference in terms of transparency, the register must require all companies to disclose the ultimate beneficial owner of any UK property under their control. It must publish that information. I would be grateful to hear the Minister's thoughts on whether the legislation currently provides an adequate degree of clarity. If he agrees that the requirements could be made clearer, I hope that we can trust that the necessary changes will be incorporated in the Bill, or set out in regulation.

Kevin Hollinrake: Again, I thank the hon. Gentleman for tabling the new clause. I understand what he is seeking to do, and I support him in that endeavour. I believe that the intent behind the new clause is the concern that assets other than land can be used for illicit purposes, but I am not sure that the new clause, as drafted, serves to address that.

As the hon. Gentleman knows, overseas entities are required to register beneficial owners with Companies House. Those registered as the beneficial owners of the overseas entity are the same persons as the beneficial owners that the new clause seeks to make registerable. Any assets held by the overseas entity are ultimately owned by those already required to register with Companies House.

Say an overseas entity owns a case of whisky, so we know who is the beneficial owner of that case. Who then owns the bottles of whisky in the case? It is the same owner as the one who owns the case. There is no separate owner—they either own the case of whisky, or they do not. I honestly do not think that the new clause would achieve what the hon. Gentleman wants it to achieve. If we think about yachts and other property, if we know the beneficial owner of the company, we also know the owner of the assets inside it. I hope that the hon. Gentleman will withdraw the motion.

Stephen Kinnock: I thank the Minister for that clarification. What rang alarm bells with us were the comments of the Financial Action Task Force, which drew the distinction between the ownership of a company and the ultimate beneficial ownership of any assets held by that company. The Minister has made his position clear, and, again, we just agree to disagree. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

Ordered, That further consideration be now adjourned. —*(Scott Mann.)*

12.58 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

Eighteenth Sitting

Thursday 24 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

Monday 28 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 24 November 2022

(Afternoon)

[Sir Christopher Chope *in the Chair*]

Economic Crime and Corporate Transparency Bill

2 pm

The Chair: Order. Let me just tell Members about the dilapidations in this room. The thermometer does not work, so we are not able to confirm our own instincts that it is quite cold. I suggested the window be shut, and I am told that it will not shut properly. If Members are very cold during the course of the afternoon, we may have to suspend the sitting for five or 10 minutes so we can go out and get some collective exercise together.

New Clause 52

Beneficial owners: shares and voting rights held by immediate family

"(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In Schedule 2, after paragraph 6 insert—

'(6A) For the purposes of subsection (6) above—

(a) Condition 1 is also met where 5% or more of shares are held, directly or indirectly, by X and one or more members of the immediate family of X; and

(b) Condition 2 is also met where 5% or more of voting rights are held, directly or indirectly, by X and one or more members of the immediate family of X.'"—*(Stephen Kinnock.)*

The intention of this new clause is to close a loophole in the current rules on registration of overseas entities, so that a threshold lower than 25% ownership or control is applied where a company's shares or voting rights are held by multiple members of the same family.

Brought up, and read the First time.

Stephen Kinnock (Aberavon) (Lab): I beg to move, That the clause be read a Second time.

Conservative Members will have gathered by now that the common theme of many of the new clauses tabled by the Opposition on the register of overseas entities is really closing loopholes. We may not, even will the best will in the world, be able to foresee at this stage exactly where any loopholes may arise, but we can at least act now to close the most obvious and predictable ones. In that spirit, new clause 52 seeks to address one of the most widely documented and understood means by which criminals attempt to conceal the true owners of property in places such as the UK.

As the Financial Action Task Force guidance on transparency and beneficial ownership explains:

"Criminals often use informal nominee arrangements whereby friends, family members or associates purport to be the beneficial owners of corporate vehicles. This can be particularly challenging given the informal and private nature of such arrangements. This issue can be addressed by placing obligations on the nominee to disclose to the company registry the identity of the person on behalf of whom they are acting and imposing sanctions for false declarations."

Going back as far as the Small Business, Enterprise and Employment Act 2015 as well as in more recent legislation, the Government have made significant strides toward eliminating legal loopholes used to conceal economic crime—for instance by abolishing bearer shares and providing for a requirement for company directors to be natural persons, which the Minister assures us will be brought into effect shortly.

Although I commend the Government for having taken those steps, it is clear that we need to go further. Given how high the Government have set the threshold at which ownership of a company's shares must be declared—at 25%—the need to tackle risks of concealing ownership by spreading shares among several different people becomes all the more urgent. Splitting ownership between family members would appear to be the easiest and most obvious way to do this. If the threshold for declaring ownership is set at 25% of a company's shares or voting rights, it takes little imagination to come up with a solution: simply break up the shares so that on paper, if not in reality, five members of the same family appear to own no more than 20% of the company each. As a result, none of them have to disclose their connections with the company under our current laws.

Although it should be acknowledged that similar issues involving the use of nominee directors, for example, raise some complicated legal questions, the use of family members to conceal the beneficial ownership of a foreign company is surely an issue that can be easily dealt with. New clause 52 provides a simple solution that I hope the Government will accept in the constructive spirit in which it is proposed.

The Parliamentary Under-Secretary of State for Business, Energy and Industrial Strategy (Kevin Hollinrake): Although I welcome the spirit of the new clause and the hon. Member's wish to close a loophole, I do not think there is one. Let me set out why. It is his position that persons might deliberately reduce their shareholding below the 25% threshold, or hold shares via multiple family members, in an effort to avoid scrutiny. The 25% threshold follows the UK's people with significant control regime, which similarly requires beneficial ownership information for UK-registered companies.

When the PSC regime was in development, significant analysis, including consultation, considered the question of thresholds. The threshold of more than 25% reflects the level of control a person needs in voting rights, under UK company law, to be able to block special resolutions of a company. It was considered that 25% represented the optimum opportunity to understand who is in a position to exert significant influence and control over a company. Collecting information on legal ownership below that threshold would be much more akin to what would be done to have the effect of creating a register of shareholders, rather than beneficial ownership.

In any case, reducing shareholdings will not allow an individual legally to evade scrutiny if they continue to exert significant influence or control. The Economic Crime (Transparency and Enforcement) Act 2022 already addresses that; anyone who has a right to exercise, or actually exercises, significant influence or control over

an overseas entity is still required to be registered under condition 4 of schedule 2, which states that,

"X has the right to exercise, or actually exercises, significant influence or control over Y".

Condition 3 states that,

"X holds the right, directly or indirectly, to appoint or remove a majority of the board of directors of Y."

There are other conditions within the definition, other than the 25%.

Information submitted about beneficial owners must be verified by a UK-supervised "relevant person", such as a lawyer or accountant. Where shares are held through multiple members of the same family, relevant persons are likely to notice that when verifying an overseas entity's application. Where a nominee holds shares for another person, the ECTE Act requires the other person to be recorded as the beneficial owner, not the nominee. That is exactly what the hon. Member for Aberavon set out. It is an offence to deliver false or misleading information to Companies House, and anyone who delivered, or caused to be delivered, such information would be at risk of prosecution—including, potentially, the lawyer or accountant.

From April 2023, UK anti-money laundering supervised relevant persons will be required to report material discrepancies to Companies House in the information contained on the register of overseas entities. That would include where a person has not been recorded as a registrable beneficial owner when a relevant person believes they should have been. The Government do not intend to lower the threshold at this time, but the Bill includes a power to amend the beneficial ownership threshold, which will be subject to the affirmative resolution procedure. I hope that these reassurances will persuade the hon. Gentleman to withdraw the new clause.

Stephen Kinnock: I thank the Minister for his response. I think the spirit of the new clauses is about prevention being better than cure. The Opposition feel that, if we look at the spectrum from deeply opaque business practices to fully transparent ones, when family members are involved we are almost by definition at the more opaque end of the spectrum. By definition, family members will be in a position to communicate with one another, things will not be on the record and the whole thing can be easily cooked up in the way that I outlined. For example, if five family members were given 20% each, they would come in under the 25% threshold.

Does the Minister agree that where family members are concerned things are more likely to be at the more opaque end of the spectrum and therefore the Bill should reflect that and have the lower threshold, as set out in the new clause?

Kevin Hollinrake: I go back to what I said earlier; I think there are all kinds of ways in which somebody could try to subvert the regulations. That is the reality and that is why we are putting the onus not only on the people concerned with the entity but on the people who represent the entity. That is the lawyer, or the accountant, and they should ask all the questions that the hon. Member set out. They should notice a family connection and potentially the person behind those individuals.

However, as I said before, someone could potentially have 0% ownership of an entity and still exert significant control. That is the point. What we are saying is that even if they have 0%, the rules still catch them if they are the person who is exerting control in a way that influences directors or shareholders, or indeed if they can appoint or dismiss directors. All those things are covered under the current provisions.

Stephen Kinnock: As I have said, we are very much about prevention being better than cure and a smart as possible approach to risk management. However, I take the Minister's comments on board and I have no further comments to make. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 53

BENEFICIAL OWNERS IN OVERSEAS TERRITORIES

'(1) The Sanctions and Anti-Money Laundering Act 2018 is amended as follows.

(2) In section 51, after subsection (5) insert—

"(5A) The Secretary of State must ensure that the Order in Council under subsection (2) above comes into effect on date no later than 30 June 2023."'—*(Stephen Kinnock.)*

This new clause would amend the Sanctions and Anti-Money Laundering Act 2018 to ensure that an Order in Council requiring open registers of beneficial ownership in the British Overseas Territories comes into force no later than 30 June 2023.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

New clause 53 would amend the wording of provisions in the Sanctions and Anti-Money Laundering Act 2018 to require the introduction of open registers of beneficial ownership in each of the UK's overseas territories.

Some of the Committee's Members are veterans of the struggle to incorporate the requirement into the 2018 Act and will no doubt recall that it was only thanks to the persistent effort of certain Back Benchers against the determined resistance of Ministers that the necessary amendment was ultimately made. It would be remiss of me not to pay particular tribute to the efforts on this issue of my right hon. Friend the Member for Barking. The Minister also deserves recognition for his advocacy on the need for transparency to be extended to the overseas territories, albeit in his previous incarnation as a Back-Bench Member of this House.

Liam Byrne (Birmingham, Hodge Hill) (Lab): What has changed?

Kevin Hollinrake: Nothing.

Stephen Kinnock: My right hon. Friend asks a very good question, while chuntering from a sedentary position. I trust that the Minister's views have not changed with his recent promotion.

The fundamental principle behind new clause 53 is simply that there should be no double standards in the legal requirements for transparency of beneficial ownership across different parts of the UK, including in the overseas territories. To put it bluntly, we have simply witnessed too many scandals involving money being laundered through territories for whose administration the UK is ultimately responsible to accept the idea that we must simply leave them to their own devices.

I will not name names here, but I think—

Dame Margaret Hodge (Barking) (Lab): I would.

Stephen Kinnock: My right hon. Friend may well wish to do so.

I think that any member of this Committee will understand what I mean when I refer to certain "usual suspects" in cases involving financial dealings that, even with the most charitable interpretation, can only be described as being questionable at best.

The language that was ultimately added to the Sanctions and Anti-Money Laundering Act 2018 reflected a recognition from Members of all parties and in both Houses that the same standards requiring open, publicly accessible registers of beneficial ownership should apply to both the UK and its overseas territories. It also reflected the widespread consensus that if we wanted to ensure that the overseas territories played by the same standards, we should be prepared to use sticks as well as carrots.

The result of that consensus was the provision in section 51 of the 2018 Act that any overseas territory that had not established a beneficial ownership registry in line with the standards of our own by the end of 2020 should be subject to direct legislation by an Order in Council. As I have already mentioned, the Government practically had to be dragged kicking and screaming to the point where they accepted that provision in the first place. However, as subsequent events have demonstrated, the real problem is that Ministers have interpreted section 51 of the Act so creatively that in effect they have completely undermined if not the letter then certainly the spirit of the law.

It seemed clear to those who pushed for section 51 of the 2018 Act that what it required was for beneficial ownership registries to be in place by the end of 2020, whether as a result of the overseas territories' own legislation or an Order in Council. According to the spin the Government chose to put on it, its obligation had been met simply by the publication of a draft Order in Council, regardless of when, or even whether, such an order might actually come into force. The result is that we are here yet again—almost five years later—still discussing how to ensure the implementation of registers to the same standards across all of the UK's territories. Surely it should not be beyond the wit of Ministers—even in this Government—to have sorted this out by now—*[Interruption.]* I am just checking that hon. Members are still awake on the Back Benches.

2.15 pm

I know exactly what the Minister will argue in response to this new clause. He will say that it is not the usual practice for the UK to legislate directly for the overseas territories. He will say that since each of the territories have already committed to introducing their own registers, there is no need for an Order in Council. These arguments are, at best, only partly true. For one thing, while it may not be commonplace to legislate directly for the overseas territories from Westminster, it is nevertheless perfectly permissible from a constitutional perspective and, in some cases, it may be constitutionally necessary—not least in cases where it appears necessary to ensure that the territories implement the laws that we expect and require them to abide by. If laws against money laundering do not fall within this category, I cannot imagine what does.

If the Minister intends to argue that assurances provided by the territories on the planned introduction of beneficial ownership of registries should be taken at face value, he will at least understand the reasons why at least Labour Members may be rather sceptical of that position. However, if any Member of this Committee wants to see an example of the problems that a completely hands-off approach to the overseas territories can lead to, I will gladly refer them to the 950-odd page report submitted to the Government by the British Virgin Islands independent commission of inquiry back in June.

Further examples in relation to other territories are not hard to find, which brings me back to section 51 of the 2018 Act and specifically the need to hold the Government to strict deadlines to ensure that registers of beneficial ownership are put in place across all parts of the UK and in each overseas territory without further delay. New clause 53 would help to secure that primarily by removing any scope for ambiguity or creative interpretation of the requirement for an Order in Council, which should take effect no later than six months into the new year. We have waited long enough for the promised registers to materialise, and we should not have to wait for another public scandal to jolt the Government into taking the action we all know is needed. Given the Minister's extensive understanding of these issues, I hope he will not argue against the new clause.

Kevin Hollinrake: I am certainly not arguing against the spirit of the new clause. I add my thanks to the right hon. Member for Barking and, indeed, my right hon. Friend the Member for Sutton Coldfield (Mr Mitchell), who took great action on this matter way before I became interested in the whole subject—although it is true to say that I took an active interest from the Back Benches on ensuring that we address this issue.

I do not accept the hon. Gentleman's characterisation of our approach as being hands off. I do not consider 250 pages of legislation as being hands off at all. There is much we want to do and agree on, and I have to agree with what I said previously. The hon. Member for Aberavon may regard me as poacher turned gamekeeper, but I do not see that at all. I still want to ensure these measures are in place. In fact, we should go further than his new clause, and I will explain that in a second.

When amendments were tabled to the Bill that became the 2018 Act several years ago, we were clearly in a very different place. All inhabited overseas territories have now committed to introducing publicly accessible registers of company beneficial ownership, and the UK Government expect them to be in place by the end of 2023, so there is a deadline on which the order could be placed. As well as overseas territories, we have committed to asking the Crown dependencies to also do that, and that does not feature in the hon. Gentleman's new clause, so it is important that this goes further than he set out.

Dame Margaret Hodge: The Minister is correct in what he says, but could he deny the rumour I have heard, which is that they are trying to get around ensuring public accountability by charging anybody who wishes to look at the register by entry? If a charge

is levied for entry to everything that appears on the register, that would diminish the intended public accountability.

Kevin Hollinrake: I am not aware of that. Clearly, it is important that the overseas territories and Crown dependencies respect the will of Parliament and the spirit of the will of Parliament, so we would be very concerned if that is the case.

Dame Margaret Hodge: I have raised this issue with the right hon. Member for Sutton Coldfield, who now sits in the Foreign Office, but I do not think it is entirely within his portfolio. Will the Minister agree to pursue the issue? If that is the way they have tried to avoid or play down the intent of Parliament, it is a very serious matter.

Kevin Hollinrake: I do not think we should operate on the basis of rumours, but I hope that the overseas territories and Crown dependencies will be following this debate with interest. We want them to follow both the spirit and the letter of the legislation that is implemented. The information should be publicly available—that is the clear intention.

This is a major commitment that will put the overseas territories and Crown dependencies ahead of most jurisdictions, and it will be a vital element of promoting greater transparency around the control and ownership of companies. I have sought assurances that it is not a hollow commitment. The FCDO is providing support to the overseas territories through Open Ownership, a respected and expert NGO, to ensure that each territory can progress its publicly accessible registers, and significant progress has been made. For example, Gibraltar's register is already live, so it will be interesting to hear about the right hon. Lady's experiences of that.

Dame Margaret Hodge: The Minister has jogged my memory. It was actually from the implementation of the Gibraltar register that I heard that, although it is live, there is a charge for accessing information.

Kevin Hollinrake: That may be something that the right hon. Lady will investigate. I am happy to make the commitment that we will do so as well.

The Cayman Islands has completed a consultation on the approach to its register, and the technical work to hit the target date is under way. The BVI recently passed primary legislation to enable the framework for regulations to be made for its register in preparation for the end of 2023. Smaller overseas territories are also working with the FCDO to update their systems to allow public access to this important information. Notably, in Anguilla the FCDO financed a completely new register, which is designed to allow public access.

The effect of new clause 53 would be to move the timeline forward by only six months for the overseas territories. All the territories are now willingly implementing publicly accessible registers and putting significant effort into the policy, despite the fact that most jurisdictions around the world are not doing so. To move forward an agreed timeline would not show good faith in our partnership with the territories. I can commit to keep the House regularly up to date on progress with the territories, and the UK Government will continue to work collaboratively, and as equal partners, with the overseas territories on their commitment.

Stephen Kinnock: I fear that it is a bit naive and complacent to think that this is going to be done by consensus. Five years have gone by since the 2018 Act was introduced and it is extraordinary that we may have to wait another 12 months, as the Minister says. Frankly, I remain sceptical that, without a stick as well as a carrot in this conversation, anything will ever happen. I would welcome any feedback that the Minister has on that point. I do not really have a specific question for him, but I am struggling to understand why we can possibly think it is acceptable that here we are, five years later, with a chasm in our ability to implement and go after the things that we want to go after. Does he really think it is justifiable to wait another 12 months, rather than just accepting the new clause?

Kevin Hollinrake: As Ronald Reagan used to say about the Russians: trust, but verify. It is important that we trust our partners but also that we see what they are doing to put these measures into effect. I quoted a number of examples where that has been done. All these overseas territories are putting the measures in place. It is right to work on a basis of good faith. We have the stick the hon. Gentleman requires, if necessary. Beyond the end of 2023, we can then use the Order in Council procedure, as he suggests. I will ensure that we keep watch over the situation very carefully, as I have committed to do. The hon. Gentleman can rest assured that it is our understanding that these measures will be in place. I urge him to withdraw the new clause on that basis.

Stephen Kinnock: Unfortunately, we remain unconvinced by the Minister's answers on these points and we wish to push the new clause to a vote.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 9.

Division No. 13]

AYES

Byrne, rh Liam	Malhotra, Seema
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom
Hughes, Eddie	

Question accordingly negatived.

New Clause 54

ENTITIES FROM HIGH-RISK JURISDICTIONS: PROHIBITION ON OWNERSHIP OF UK LAND

"(1) The Land Registration Act 2002 is amended as follows.

(2) In Schedule 4A, after paragraph 2 insert—

'(2A) No application may be made to register an overseas entity as the proprietor of a qualifying estate if the entity was originally incorporated in a jurisdiction which was designated as a high-risk jurisdiction for money laundering and terrorist financing at the time of the entity's incorporation.

(2B) For the purposes of section (2A) above, "designated as a high-risk jurisdiction for money laundering and terrorist financing" means—

(a) a jurisdiction included on the Financial Action Task Force list of jurisdictions under increased monitoring;

(b) a jurisdiction included on the Financial Action Task Force list of high-risk jurisdictions subject to a call for action; or

(c) any other jurisdiction which the Secretary of State may see fit to designate as a high-risk third country in Schedule 3ZA of the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017.'"—*(Stephen Kinnock.)*

The intention of this new clause is to prevent any company from registering in the UK for the purposes of acquiring land if the company in question was originally incorporated in a jurisdiction designated, either by UK or international authorities, as a high-risk jurisdiction for money laundering and terrorist financing at the time of the company's incorporation.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

Given the extensive discussions we have had on issues involving money laundering risks, including risks in relation to certain designated high-risk jurisdictions overseas, there is a fundamental question that we are not sure we have got to the bottom of. That question, which is addressed in part by new clause 54, is why we should allow a company incorporated overseas in a jurisdiction that operates on the basis of lax money laundering controls to do business in the UK at all, much less to own property or land here.

As we have already discussed, the primary purpose of the Treasury's list of designated high-risk countries is to mirror the list of jurisdictions identified by the Financial Action Task Force as posing serious threats of money laundering and terrorist financing on account of weaknesses in their laws, inadequate law enforcement or some combination of the two.

New clause 54 seeks to incorporate into the Bill what we on the Opposition Benches believe to be a matter of basic common sense: if a company was initially formed under laws designated by the Treasury, under international guidelines, as seriously deficient in their approach to money laundering risks, that company should not be allowed to own land or property in the UK. It is a straightforward solution to a very serious problem. It would go a long way towards driving tainted money out of the UK property market. I hope that, on this basis, the Government will support new clause 54.

Kevin Hollinrake: New clause 54 seeks to prevent the acquisition of land in the UK by companies registered in jurisdictions that are listed as high risk by the Financial Action Task Force or so designated by the Secretary of State under the UK's money laundering regulations. The Financial Action Task Force lists jurisdictions identified as having strategic deficiencies in their anti-money laundering and counter terrorist financing regimes that could pose an increased illicit finance risk.

The new clause is well intentioned and hon. Members are to be commended for their determination to rid the UK of dirty money. However, we do not believe that the new clause will have the intended effect. Jurisdictions that appear on the taskforce's list of jurisdictions under increased monitoring, which include some key UK partners and Commonwealth members, have committed to swiftly resolve the identified deficiencies within agreed timeframes. The list is updated three times a year, and under the UK's AML regulations, obliged businesses are already required to take enhanced due diligence measures for customers and transactions linked with individuals or companies established in high-risk jurisdictions.

2.30 pm

Liam Byrne: No one could accuse the Minister of being an innocent abroad in a world that is not innocent, but I have to ask him whether he seriously believes the content of the paragraphs that he has just read out. I have no doubt that there are countries around the world that have said that they are going to increase their AML supervision, but we now have a situation in this country where we have some very bad people, such as Usmanov and others, who own property portfolios of up to £50 million. We have allowed them to do that, and now we cannot take those portfolios off them, so could the Minister at least tell us how he is going to seriously get a grip on bad people from bad countries being allowed to buy assets here in the UK?

Kevin Hollinrake: We have applied sanctions on a targeted basis to some of those actors—*[Interruption.]* The right hon. Gentleman raises his eyebrows. Is he not aware of the sanctions we have applied to certain individuals from high-risk jurisdictions?

Liam Byrne: As the Minister knows, I am one of the Members who pushed for the Government to toughen up their sanctions after they left so many people off the sanctions list the first time around. Going forward, how is he going to stop bad people from bad countries who have no intention of improving their AML regulation buying mansions in London?

Kevin Hollinrake: It is entirely wrong to tar everybody from one country with the same brush. Clearly there are some deficiencies, but is the right hon. Gentleman honestly saying that every person from a jurisdiction that has deficiencies in its AML regime is a bad person? I think that is what he said, and I think it is entirely inappropriate.

Liam Byrne: I am grateful for the chance to put the question where it belongs, which is back on the Minister. The question was very simple: how is he going to ensure that bad people who happen to live in bad countries are prohibited from buying assets here in London? How is he going to do that? Tell us!

Kevin Hollinrake: Through the provisions in this 250-page piece of legislation; through the provisions in the legislation that was passed earlier this year, which both of us campaigned for; and through other things, such as the sanctions regime—through all those different things. It is our view that we should look at the people, not necessarily the jurisdiction. Of course, we work internationally to improve jurisdictions around the world, but it is wrong to suddenly say that countries, potentially including Commonwealth countries, are bad countries, which I think is what the right hon. Gentleman said.

Liam Byrne: We may as well pursue this to its death—I am grateful to the Minister for being so generous in giving way. Let us take the example of Usmanov. He has only recently been sanctioned, but when we read the indictment, we see that it is very clear that he has been an associate, colleague and enabler of President Putin for an awfully long time. The sanctions came ex post facto, after he had been allowed to acquire assets. How do we create a more preventive regime to stop this kind of nuisance on our shores?

Kevin Hollinrake: The right hon. Gentleman is saying that no Russian should ever be able to buy property in the UK—

Liam Byrne: I didn't say that, did I?

Kevin Hollinrake: That is exactly what he is saying. Russia is a high-risk jurisdiction; is he saying that no Russian can buy property in the UK?

Liam Byrne: I am grateful for the chance to clarify. The Minister is engaged in the old debating tactic of putting the question back on me, but the question is on him: how is he going to stop individuals like Usmanov buying property in London in the future? What safeguards does he think he has in place? When a sanction has not yet been put in place, how is he going to stop people about whom we have serious concerns acquiring that kind of asset?

Kevin Hollinrake: If the right hon. Gentleman is saying that people are guilty until proven innocent, that is entirely the wrong way to look at this issue. Of course, those decisions have to be information-led; many of the provisions in the Bill are about information sharing and being information-led, looking at the red flags, identifying the people who we potentially need to be concerned about, and preventing those people's actions on that basis.

Liam Byrne: Will the Minister give way?

Kevin Hollinrake: I think I have given way enough on this point.

Liam Byrne: It is my last one.

Kevin Hollinrake: One last time, then.

Liam Byrne: The Minister is being characteristically generous with his time. Is he therefore reassuring the Committee that if the provisions in the Bill had been in place, Usmanov would have been prohibited from buying a mansion three years ago—yes or no?

Kevin Hollinrake: He may not have been, because he was not on the sanctions list at that point, and he was not on a sanctions list anywhere else in the world, as far as I am aware. He may have been—I do not actually know that information—but Usmanov would have been treated like anybody else under our system. It is interesting how quickly the Opposition sometimes will jettison some of the fundamentals of our society, one of which being that a person is innocent until proven guilty. We need the evidence before we can sanction somebody. We will adhere to that principle—certainly I will as long as I am in Parliament.

This new clause would prevent the registration of titles by legitimate companies in any of the jurisdictions on the lists. That would have a detrimental impact on those companies wishing to invest in the UK, as not every company incorporated in those jurisdictions is a bad actor. Although the new clause would prevent registration of title by an overseas entity, it is not possible to prevent a transaction from taking place and money changing hands. Unintended consequences would be likely.

Any overseas entity applying to the Land Registry to register title must now be registered with Companies House and have an ID number. That provides a safeguard against bad actors, more transparency about the overseas entity, and information for law enforcement should it later transpire that the overseas entity is involved in criminal activity. Therefore, I politely ask for this new clause to be withdrawn.

Stephen Kinnock: We are really just going back to the point about prevention being better than cure. Of course, what is really important here is that it is our sovereign Government, our Treasury, doing the designations. It is our Treasury and other expertise in our British Government saying, "That jurisdiction over there is high risk. It has lax control on money laundering. It has no sense, really, of what is going on. It's a kind of wild west in its business environment." That should raise many red flags and set many alarm bells ringing. The constructive spirit of this proposal is to say, "Look, we know where there are red flags. We should be acting on those red flags in a preventive way," rather than, as my right hon. Friend the Member for Birmingham, Hodge Hill said, an ex post facto way, because once the damage is done, it is a lot more costly and a lot more insidious, because we have not dealt with the issue at source and then we are left to clear up the mess and pick up the pieces. That is the spirit in which the proposal is made. I invite the Minister to express any reflections that he has on what is actually a kind of philosophical point about the Bill. Is prevention better than cure—yes or no?

Kevin Hollinrake: Yes, undoubtedly, but I think that putting a blanket restriction on bona fide companies and bona fide individuals buying from those jurisdictions is disproportionate and wrong. I absolutely agree with the hon. Gentleman in terms of the spirit of the new clause and of his point about red flags. That is exactly the way the system works. Yes, certainly, the registrar should definitely look at the jurisdiction from which the person is purchasing a property, for example. That may well be the red flag that the hon. Gentleman refers to. To me, that is a more appropriate way of dealing with this matter than simply a blanket ban on purchase.

Stephen Kinnock: I thank the Minister for those points. We remain unconvinced by the position and would like to push this new clause to a Division.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 9.

Division No. 14]

AYES

Byrne, rh Liam	Malhotra, Seema
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom
Hughes, Eddie	

Question accordingly negatived.

New Clause 55

UPDATING DUTY: FREQUENCY

'(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In subsection (9) of section 7, in paragraphs (a) and (b) for "12" substitute "6".'—*(Stephen Kinnock.)*

This new clause would require registered overseas entities to provide updates on any changes in beneficial ownership every six months, instead of annually as is currently required.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

New clause 55 also provides a simple solution to what appears to be a flaw in the Bill's current drafting, which could be exploited by criminals seeking to exploit any legal loopholes left open to them. Under the Economic Crime (Transparency and Enforcement) Act 2022, companies required to register their ownership of UK property are required to provide annual updates on any changes to their beneficial ownership. It is not hard to see how that could be used as a loophole to conceal the ownership of property by, for instance, an individual designated by UK sanctions. A company could, at least in theory, report to Companies House that its beneficial owner was the same as it had been the previous year, without disclosing the fact that another individual had been a beneficial owner at some point during the intervening 12 months.

New clause 55 is intended to probe the Government's thinking in this area and, as with the previous new clause, to provide the Minister with an opportunity to set out in detail how the Government plan to ensure that the laws leave no foreseeable loopholes open for exploitation by criminals.

Kevin Hollinrake: I might get into trouble with you, Sir Christopher, but on the previous new clause, countries on the high-risk jurisdiction list include Israel, Turkey and the Czech Republic. Is it honestly the Opposition's intention to prevent individuals and companies from those jurisdictions from buying property in the UK? We should think again.

I thank the hon. Member for Aberavon for new clause 55. I wholeheartedly agree that keeping the information on the register up to date is critical. The annual update requirement is intended to provide certainty for third parties transacting with overseas entities. Property transactions often take many months to complete, and during that time a third party transacting with an overseas entity must have certainty that the entity remains compliant with the requirements of the register so that transactions are not disrupted. The key sanction for non-compliance with the register, which interferes with existing property rights, is to make it impossible for a buyer to register a title if purchasing from a non-compliant overseas entity. The onus is therefore on the buyer and their agents to ensure that they do not transact with a non-compliant entity.

In order to protect the buyer, likely to be an innocent third party, it follows that there must be absolute legal certainty about the compliance status of the overseas entity throughout the duration of the transaction. An annual update provides that certainty, giving enough time for transactions to be completed before the requirement for an update kicks in. If an update is not made on time, the overseas entity is regarded as non-compliant, and the restrictions on land transfers will bite.

The hon. Member talked about somebody switching ownership between the two reporting times. I cannot honestly see what the benefit to anybody of doing that would be, but he may wish to give me examples.

The ECTE Act includes a power to amend the update period by regulations. Should it become clear, once the register has bedded in, that the update period is too long or too short, that power can be exercised to change the update period. I therefore ask that the probing new clause be withdrawn.

Stephen Kinnock: I thank the Minister for those clarifications. This was an opportunity to set out those assurances, which we are happy to accept. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 56

LIMITED PARTNERSHIPS: REGISTRATION OF PERSONS OF SIGNIFICANT CONTROL

"(1) The Secretary of State must by regulations make provision about the registration of persons of significant control in relation to limited partnerships.

(2) For the purposes of regulations under this section, 'persons of significant control' may include persons with a right to—

(a) 25% or more of the surplus assets on winding up,

(b) a voting share of 25% or more,

(c) appoint or remove the majority of managers,

(d) exercise significant influence or control over the business, or

(e) exercise significant influence or control over a firm which would be a person of significant control if it were an individual.

(3) No regulations to which this section applies may be made unless a draft of the statutory instrument containing the regulations (whether or not together with other provisions) has been laid before, and approved by a resolution of, each House of Parliament."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 9.

Division No. 15]

AYES

Byrne, rh Liam	Malhotra, Seema
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom
Hughes, Eddie	

Question accordingly negatived.

New Clause 59

PUBLICATION OF INFORMATION ABOUT TRUSTEES

"(1) The Economic Crime (Transparency and Enforcement) Act 2022 is amended as follows.

(2) In subsection (1) of section 22, omit paragraph (c)."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

We touched on this issue last week. The new clause is what I consider to be another perfectly sensible, rational, pragmatic amendment that enhances transparency and accountability. It would ensure that the legislation worked effectively rather than ineffectively, as we think will be the case at the moment.

2.45 pm

The new clause is designed to close a loophole in the Economic Crime (Transparency and Enforcement) Act 2022. As I understand it, the register of overseas entities will require trusts that currently own property in the UK to declare the name of a trust; its creation date; and the name of all the trustees, the beneficiaries, the settlers, the granters or the interested persons. However, on the actual register all that will appear is the name of the trust. There will be no details of who actually owns the trust and has the ownership control and benefits of the assets that exist within that trust.

I understand that the information would be available to enforcement, HMRC et al. I get that. The whole point of much of the legislation, however—and I know the Minister knows this is true—is to extend the accountability beyond the enforcement agencies, so that, for example, businesses, civil society, the press and we as Members of Parliament can all understand who is really behind the overseas entity that owns the property here in the UK. That is what our little new clause would enable.

My right hon. Friend the Member for Birmingham Hodge Hill has reminded us that when we try to sanction assets, particularly those of Russian oligarchs—the friends of Putin who sustain him in his wicked endeavours—those oligarchs hide their assets in trusts. We have seen that in recent times. The Economic Crime (Transparency and Enforcement) Act 2022 calls on trusts to tell Companies House the names but it does not require them to do so. Let us consider the Usmanov example to which my right hon. Friend referred.

I am sad to say that Usmanov is an ex-Arsenal shareholder. He put millions into an irrevocable trust and was once said to be one of the UK's richest individuals. The Russian asset tracker, which works in partnership with *The Guardian* and the organised crime and corruption reporting project and other international news organisations, has found out a little bit about where those assets went. He had a £350 million private jet and a helicopter, which he deregistered from the Isle of Man on the day that he was sanctioned here in the UK. His close relatives now own various properties in Italy, Latvia and Germany that he acquired with money stolen from the Russian people. And he has a private yacht, which has a concession to moor in Barcelona port until 2036.

That individual also owns two properties in London and the south-east, Beechwood House in Highgate, which is worth £48 million—it has probably gone up since I got that figure—and a 16th century house and estate: Sutton Place, in Surrey, which is worth about £34 million. That is getting on for £100 million. We tried to freeze those assets when we sanctioned him, but Sutton Place is owned by a company based in Cyprus, and Beechwood House is owned by a company based in the Isle of Man. If there is no transparency on who is behind trusts and ownership, bad people can obfuscate where they put their stolen assets. It is very difficult for us not just to freeze, but to seize the asset—as we will come on to on Report perhaps.

If we do not have the information out in the open, it is impossible for us as MPs, for civil society, for the non-governmental organisations or for journalists to follow the money. That is all we are trying to do. I urge the Minister, in the interests of making the Bill an effective bit of legislation, which is what we all seek, to accept the new clause and not to put forward any tenuous argument that belies common sense. The new clause is a common-sense proposal that would simply increase transparency and accountability, making it easier to follow the dirty money that has entered the UK.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship this afternoon, Sir Christopher, and to speak briefly in support of the speech of my right hon. Friend the Member for Barking. The new clause is short and, on that basis alone, the Minister might want to look closely at it for inclusion in the Bill. It is important and significant.

We almost thought we would not have this conversation when we debated the Government new clause 15 on Tuesday, until the Minister made it clear that information about trustees would not be published. That feels like a space that is a black hole for more to be hidden in. If we do not do this, the Minister will probably see a rise in the use of trusts to achieve less transparency.

For all the reasons my right hon. Friend the Member for Barking outlined, it is important that the information about trustees is available for public inspection. I will welcome the Minister's comments. Perhaps he has thought further on the arguments since Tuesday. Here is further room for him to consider information on trustees, where it is held and its being published for public inspection. That would be in the public interest.

Kevin Hollinrake: The word "trust" in this context sends shivers down all our spines. I understand the rationale behind the new clause, but the right hon. Member for Barking is right in that I will state my position.

[Kevin Hollinrake]

There is a key matter here. The right hon. Lady cited a couple of examples, one a trust and one a company, where she implied a disguised ownership of certain assets. The current requirements of legislation are that information about a registrable beneficial owner of a trust is displayed publicly. If someone is a beneficial owner, their name is revealed publicly. She might argue that that person could be lying, but they can lie about ownership of anything—"I don't own any of this and do not exert control"—as we have discussed before.

The amendment makes all trust information available, even if that sits below the 25% or whatever ownership there might be of the trust or its benefit.

Dame Margaret Hodge: Usmanov is the better example, although I could have talked about Gutseriev or Fedotov, or about Azerbaijan—I had a debate in the House on the leading family of Azerbaijan. The reason all those things hang together is that the beneficial ownership is passed to a daughter or sister, or the shareholding is below 5%, and we are creating all these legal loopholes that enable the Usmanovs, Gutserievs, Fedotovs and all those people to hide their real control of an asset. That is really the point. That is what we are trying to get at—having it out in the open. What we have said constantly with our amendments is that if there are minor flaws with the way we have put them together, we are happy to listen, but I am absolutely certain that the principle behind them is correct.

Kevin Hollinrake: I just do not think that is right. The right hon. Lady might not have meant this exactly, but even if ownership is reduced—this goes for a company more than a trust—to below 5%, the amendment would not even solve that issue, would it? The legislation requires the beneficial ownership to be registrable and for there to be openly available information. Of course the person who is entering that information could lie. A lawyer or accountant could lie. But now they are subject to a criminal sanction for doing that if it is proven. As has been mentioned, information around trusts is a concern. It should raise red flags with Companies House. That information can of course be shared.

The other thing I would say is that trusts are used for legitimate purposes, including to protect the privacy and safety of children, for example, and other vulnerable individuals. The ECTE Act allows the registrar to disclose protected trust information to HMRC, and regulations will soon be made to allow the registrar to disclose the information to other persons with functions of a public nature, such as tackling crime.

Dame Margaret Hodge: The Minister often says this, but there are two issues here. If the trust or any of these entities are for legitimate purposes, the people involved should have absolutely no fear of transparency. That is the fallacy in the argument. If nobody is doing anything wrong, they should not worry about the information being public. If there are really good reasons, as there occasionally may be, for keeping confidential the name of a particular individual in a particular trust, we can and we are putting in legislation that covers those exceptional circumstances, but using the exceptional circumstance to justify the general rule is simply not good enough.

Kevin Hollinrake: We may have to agree to disagree. The requirement to register somebody of beneficial ownership is quite clear. If there is a beneficial owner, that person will have to be publicly named. That is what we seek to achieve through this legislation, and that is what we think it does. There are some points in the amendment that we think are relevant, including potentially widening access to information in certain circumstances with certain authorities. We will consider that, but we cannot accept the totality of the amendment at this time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 9.

Division No. 16]

AYES

Byrne, rh Liam	Malhotra, Seema
Hodge, rh Dame Margaret	Newlands, Gavin
Kinnock, Stephen	Thewliss, Alison

NOES

Ansell, Caroline	Hunt, Jane
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom
Hughes, Eddie	

Question accordingly negatived.

New Clause 60

REPORTING REQUIREMENT (ENFORCEMENT CAPABILITIES)

"(1) The Secretary of State must, no later than six months from the date on which this Act comes into force, carry out and publish the results of a review of the capacity of the Financial Conduct Authority to regulate the activities of cryptoasset businesses as required by the relevant legislation.

(2) For the purposes of subsection (1) above, 'relevant legislation' includes—

(a) the Money Laundering Regulations 2017, as amended;

(b) the provisions of Part 4 and Schedules 6 and 7 of this Act.

(3) For the purposes of subsection (1) above, matters relevant to the assessment of the capacity of the Financial Conduct Authority to regulate the activities of cryptoasset businesses include—

(a) the projected budget during the current spending review period;

(b) the total number of full-time equivalent staff;

(c) the level of relevant expertise within its workforce; and

(d) challenges related to the recruitment and retention of staff.

(4) The review must also include an assessment of whether the current legal powers of the Financial Conduct Authority provide an adequate basis for consumer protection in relation to cryptoassets."—*(Stephen Kinnock.)*

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

The Chair: With this, it will be convenient to discuss:

New clause 61—*Reporting requirement (overseas territories)*—

"'(1) The Secretary of State must, no later than six months from the date on which this Act comes into force, carry out and publish the results of a review of the level of regulation of cryptoasset businesses for the purposes of tackling economic crime in—

(a) each of the Crown Dependencies; and

(b) each of the UK Overseas Territories.

(2) Following the publication of such a review, the Secretary of State must prepare and publish a strategy for enhancing the level of regulation of cryptoasset businesses in any of the jurisdictions mentioned in subsection (1) above which may have serious deficiencies in their regulatory frameworks in relation to such businesses.

(3) For the purposes of subsection (2) above, criteria for identifying serious deficiencies shall include—

(a) the level of compliance by each jurisdiction with international standards set out by the Financial Action Task Force and affiliated regional bodies;

(b) the level of compliance by each jurisdiction with its legal obligations under any relevant international agreements to which it is a party; and

(c) the level of enforcement in each jurisdiction of relevant laws applicable in that jurisdiction.

(4) The strategy required by subsection (2) above must include specific plans to ensure parity between—

(a) legal frameworks; and

(b) law enforcement efforts

between the UK and each Crown Dependency and Overseas Territory."

Stephen Kinnock: New clause 60 takes us back to some of the issues we touched on during Tuesday's debate on part 4 of the Bill in relation to cryptoassets. Considering how many new regulations there are in this area, it is worth taking stock of how well the regulations already in place have been implemented to date and what more needs to be done to ensure that those responsible for enforcing the measures in the Bill have the powers, the expertise and the capacity they need.

3 pm

As the primary regulator of cryptoasset businesses, the FCA is a case in point. Following changes to the anti-money laundering regulations, cryptoassets were brought under the FCA's supervision at the beginning of 2020, but, as I mentioned in Tuesday's debate, the FCA has reported that the overwhelming majority of crypto firms required to register have either failed to do so or withdrew their applications once it was clear that they would not meet the requirements. As a result, there appear to be well over 200 firms doing business in the UK without permission, outside any supervision under anti-money laundering regulations.

Therefore, it should be apparent to every member of the Committee that there is an urgent need to address the growing shortfall between expectations and resources in the context of cryptoasset regulation. However, rather than implementing the strategy required to match the Minister's ambition, with the requisite staffing, funding and expertise, the Government risk making a bad situation worse.

Under the Bill, Ministers are bringing in new regulations at the very same time as civil service budgets and staff are struggling to deal with unprecedented strain. It is by no means clear that the Bill, particularly in its provisions on cryptoassets, will achieve anything more than to ask more of regulators and law enforcement agencies while providing them with less resource to do it. New clause 60 represents an attempt on the Opposition's part to require a comprehensive and strategic approach to tackling risks of economic crime in the crypto sector. It is tabled very much in the spirit of seeking to ensure that legislation is properly implemented.

The Minister for Security (Tom Tugendhat): I am sympathetic to the intent of new clause 60, but I cannot agree to it. It remains vital to maintain a robust supervisory regime for cryptoasset firms, but that is something the FCA already does.

The FCA's approach to assessing firms in the initial stages through registration removes poor-quality firms and bad actors from the UK system, reducing the risk of domestic firms being used to launder the proceeds of illicit activity. That robust gateway has already prevented over 200 firms that were unable to manage anti-money laundering and counter-terrorist financing risks from being registered.

Cryptoasset firms approved to operate in the UK are subject to ongoing supervision by the FCA to make sure they continue to meet those standards. The regime also provides the FCA with a number of powers in relation to those who do not meet the UK's standards. For example, the FCA can direct a firm to make disclosures, implement additional controls and oversights, and issue injunctions to prevent potentially illicit cryptoasset activity. Furthermore, the FCA is already subject to oversight by His Majesty's Treasury, the lead Department for anti-money laundering regulations, and, as a statutory regulator, it is also directly accountable to Parliament.

I turn to new clause 61. Again, I am sympathetic but do not support it. As we have discussed, FATF sets international standards on anti-money laundering and counter-terrorist financing, including in relation to the regulation of cryptoasset businesses, or "virtual asset service providers", as the taskforce calls them.

FATF and its regional bodies are responsible for assessing their members against international standards. That includes assessments of the Crown dependencies and overseas territories on their regulation of cryptoasset businesses. A UK review of the Crown dependencies and overseas territories would not add value to that. The Crown dependencies and overseas territories co-operate with the UK and are committed to meeting international standards on fighting financial crime and countering terrorist finance. I therefore ask the hon. Member for Aberavon to withdraw the proposed new clauses.

Stephen Kinnock: I thank the Minister for that feedback. We want to ensure there is a mechanism to check and verify that the FCA is able and resourced to do what we want it to do. Our worry is that if we take a hands-off approach and leave it to its own devices without looking at whether it is achieving what we want it to achieve, in

[Stephen Kinnock]

this fast-moving world, we could potentially lose control of the situation. I am sure that that would be a matter of regret to the Minister and the Committee.

New clause 61 is about ensuring that UK authorities can keep a close watch on developments in the overseas territories and take any necessary steps to ensure that we avoid the same kind of race to the bottom that has turned some of those territories into a magnet for a host of dodgy—and often outright criminal—financial transactions in recent decades. There are already reports of rapidly growing cottage industries springing up in places such as the Cayman Islands, aiming to facilitate the incorporation of cryptoasset businesses with, we can only assume, minimal regulatory oversight.

I thank the Minister for his comments, but will he say a bit more about how we are ensuring and building robust approaches to regulating crypto-related risks in our overseas territories, as well as the Crown dependencies, in the light of those growing cottage industries, the increasing risk, and our responsibility for what is happening there? Does he feel that there is anything more that could or should be done?

Tom Tugendhat: The hon. Member raises some important points. I do not in any way wish to disabuse him of the view that there is a risk with this industry; crypto has posed challenges to many areas. It is worth pointing out that the FCA has a budget of £600 million and co-operates extremely closely with the overseas territories and their regulatory bodies. It provides not just an oversight function here, but an education function for many others, and it sets an example that many other jurisdictions seek to emulate.

I urge the hon. Member to look at the way in which the FCA actually works, and at the way in which the overseas territories and Crown dependencies already co-operate. That is not to say that there are not problems—there are often problems in such regulatory environments, which we need to address—but the correct thing to do is to work with the FCA, as it is already doing an excellent job, and ensure that it is properly resourced. As I said, £0.6 billion seems like quite a lot, and there are various ways in which we are supporting further improvements via co-operation.

Stephen Kinnock: I thank the Minister for those points. We feel that it is a bit of a leap of faith but, on the basis of the assurances that he has given, I am happy to withdraw the clauses. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 64

DISCLOSURE OF INFORMATION IN THE PUBLIC INTEREST LIKELY TO BE RELEVANT TO THE INVESTIGATION OF ECONOMIC CRIME

"(1) It is a defence to an action based on the disclosure or publication of information for the defendant to show that—

(a) the disclosure or publication complained of was likely to be relevant to the investigation of an economic crime, and

(b) the defendant reasonably believed that the disclosure or publication complained of was likely to be relevant to the investigation of an economic crime.

(2) Subject to subsection (3), in determining whether the defendant has shown the matters mentioned in subsection (1), the court must have regard to all the circumstances of the case.

(3) In determining whether it was reasonable for the defendant to believe that the disclosure or publication complained of was likely to be relevant to the investigation of an economic crime, the court must make such allowance for editorial judgement as it considers appropriate.

(4) For the avoidance of doubt, the defence under this section may be relied upon irrespective of whether the statement complained of is a statement of fact or a statement of opinion."*—(Liam Byrne.)*

Brought up, and read the First time.

Liam Byrne: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 65—*Economic crime: power to strike out statement of case for abuse of process*—

"The court may strike out the whole or part of any statement of case which can be reasonably understood as having the purpose of concealing, or preventing disclosure or publication of, any information likely to be relevant to the investigation of an economic crime."

Liam Byrne: It is a pleasure to serve with you in the Chair, Sir Christopher. I thank the Minister for Security, along with the right hon. Member for Haltemprice and Howden (Mr Davis) and the hon. Member for Isle of Wight (Bob Seely), who have worked assiduously on this issue over the course of this year.

In many ways, we have debated this issue a lot during our consideration of the Bill. There is a shared belief across the Committee that sunlight is the best disinfectant and, because this is the Economic Crime and Corporate Transparency Bill, it is important that we empower everyone who brings transparency to the business of investigating economic crime, including journalists.

Yet I am afraid that, to many people, "global Britain" now means that our country is a global centre for lawfare. Our courts, which have been sanctuaries for justice for 1,000 years, have become arenas of silence where expensive lawyers—Schillings and others—are used systematically by bad people to try to rack up enormous costs for journalists, to such an extent that they are no longer able to bring important information and news into the public domain.

The issue is now so serious that, when the Foreign Policy Centre surveyed investigative journalists around the world, it found that three quarters of them had received legal threats designed to shut them up. The origin of those threats is, by and large, this country; in fact, this country was responsible for more legal threats than the United States and the European Union put together. We have become a global centre for lawfare against people who are being so courageous and brave in trying to bring crime to public attention.

We have so many of these strategic lawsuits against public participation, as they are called, that there is now a clear playbook. First, the company or oligarch will try to target an individual. They will always try to target the individual journalist rather than the organisation they work for because, frankly, they know that they can intimidate the individual far more than they can intimidate

a corporate organisation. That is exactly what brave journalists such as Carole Cadwalladr and Catherine Belton had to face.

Secondly, the company or oligarch will then file the most ludicrously exaggerated claims. Look, for example, at the claims that Mr Mohamed Amersi has filed against a former Member of this House, Charlotte Leslie. It is the most ridiculous, conflated nonsense that he is trying to put through the court, but that is par for the course, because, of course, they are not interested in winning the case; all they are interested in doing is racking up as much cost as possible to damage the poorer party.

Thirdly, the claimant will go to enormous lengths to try to intimidate the individual. In "Kleptopia", the journalist Tom Burgis, the author of that and other wonderful books, tells a story of how private investigators from Eurasian Natural Resources Corporation suddenly turned up at a meeting in an underground car park between him and a former director of the Serious Fraud Office. There is no way they could have known that meeting was taking place unless they were hacking and bugging his phone, but that is the kind of intimidation that these individuals think is acceptable.

Fourthly, these oligarchs will try to co-ordinate with others. Look at the way Roman Abramovich tried to intimidate Catherine Belton: he sidled up with all sorts of cronies and mates to try to bring a concerted action against her and her publisher, HarperCollins. Finally, they will try to file claims in multiple jurisdictions, such as Australia, in order to maximise the costs.

If anyone thinks that this is something of the past, there is one case in particular that shows that it is very much of the present. The Nazarbayevs are trying to take the Bureau of Investigative Journalism to court. That is a great example, frankly, of this whole playbook being thrown at journalists trying to expose economic crime.

The Nazarbayev Fund's holding company, Jusan Technologies Ltd, issued defamation proceedings in the High Court on 16 August. It has also filed against the *Telegraph* and openDemocracy. Its lawyers, Boies Schiller Flexner, the firm, incidentally, that represented Harvey Weinstein, are trying to use the Defamation Act 2013 to attack and shut down the team of investigative journalists for the crime of exposing the network of funds—$7.8 billion-worth of gross assets—held through a company registered in the UK that recently had just one employee. Documents revealed by the journalists in October 2021 showed that Jusan Technologies was the centre of a sprawling corporate operation, with private interests held by well-connected members of the Kazakh elite and businesses connected to the ruling family of the United Arab Emirates, and assets held through dozens of businesses scattered throughout Kazakhstan, Luxembourg, the UAE, the UK and now the United States.

All the tactics I mentioned are now being used against the Bureau of Investigative Journalism. It is simply outrageous that a country that prides itself on being the home of free speech is now home to courts being used to silence journalists. New clauses 64 and 65 seek to take the regime set out in clause 155 onwards, related to protected disclosures, and say, "Well, look, if we are going to protect disclosures, then among the group that we should be trying to protect are journalists, and the disclosures that we should be trying to protect are of information relating to the investigation of an economic crime."

With my thanks to the Clerks and others, we have taken a slightly different approach in the new clauses, but that is basically the intellectual and philosophical approach that we seek to take, and that is why people are happy that the new clauses are within the scope of the Bill. Crucially, the new clauses seek to equip a judge—not us here in this House—with the power to dismiss legal actions clearly designed to silence journalists and others investigating economic crime.

3.15 pm

Because the Minister was such a vociferous supporter of the anti-SLAPPs campaign, I know that the Government will accept the new clauses straight into the Bill. If not, there will have to be a pretty good explanation. This subject is of wide interest to Members across the House. We know—this is why we are here today—that economic crime is morphing enormously and that those behind it are bad people who are determined to try to silence free speech and damage our democracy. We know the truth that Václav Havel gave us, which is that the best way to fight totalitarians, bully boys, dictators and their friends is to live in truth. That is what these new clauses seek to do.

Stephen Kinnock: I will be brief. I fully support the comments made by my right hon. Friend the Member for Birmingham, Hodge Hill, and I fully support the new clause. I pay tribute to the other Members he mentioned who have played an important role in raising the profile and awareness of this very important issue. The Committee has an opportunity to reflect on the need for urgent action by the Government to crack down on abuses of our legal system by the wealthy and powerful individuals who seek to shut down dissenting voices whose investigations are inconvenient to them.

Surely, the Government have been aware for some time of the most flagrant cases of jurisdiction shopping by oligarchs and kleptocrats in British courts, but recognition of the problem has not been backed up by the necessary legislation. The Government have missed repeated opportunities to legislate against SLAPPs, and although consultations have been launched and expert advice and evidence has been reviewed, we still have not seen meaningful action to deal with these problems. It remains unclear when, or even if, new legislation will be forthcoming. I look forward to hearing what the Minister has to say on this important subject.

Alison Thewliss (Glasgow Central) (SNP): I very much to support everything that the right hon. Member for Birmingham, Hodge Hill said. In his evidence to the Committee, Thomas Mayne of Chatham House said:

"This is a perfect opportunity for some kind of anti-SLAPP legislation to be put in the Bill."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 80, Q166.]

If the new clause is not going to be accepted this afternoon, will the Minister explain exactly when we will pass this legislation? Not "in due course", not "at some point", not "when legislative time permits"—when precisely will we legislate on this issue, if not now?

Tom Tugendhat: It is a huge pleasure to speak on this new clause. None of what I am going to say to begin with will particularly surprise the right hon. Member for Birmingham, Hodge Hill, because—

Liam Byrne: Because he is going to accept it.

Tom Tugendhat: He knows very well that I am not going to accept it. The way in which the new clause is set out cuts across many other aspects of law, and it would quite severely affect jurisprudence in this country. However, he is absolutely right to point out the issue, and it is worth taking a bit of time to explain how we intend to address it.

The right hon. Gentleman is correct that the Under-Secretary of State for Business, Energy and Industrial Strategy, my hon. Friend the Member for Thirsk and Malton, and I are extremely clear that this is an important aspect of legal reform that we need to see in the United Kingdom. It is important because it affects freedom of speech in this country, as the right hon. Gentleman rightly says, and because it has a certain negative influence on the legal environment in which, sadly, people have to operate. He rightly spoke about Catherine Belton, whose work in exposing many of the crimes of the Putin regime has been frankly exemplary and heroic.

It is important that we address this. The way to do that is not to treat it simply as an economic crime, which it is not. It is not just a crime that affects the economy of our country or the movement of dirty money. It is a crime that is about freedom of speech and the access to justice that many people in our county need. We should look at it more as an offence against a fundamental democratic value than as an economic crime. That is why the work is being done with the Ministry of Justice, for rather obvious reasons. We are ensuring that we have a piece of anti-SLAPPs legislation, as the right hon. Gentleman correctly calls it, that addresses the whole problem.

The UK is still leading the way on the issue at national level. We are not yet where we wish to be, but we are doing better than many others. It is worth remembering that many different groups are working on this. The Solicitors Regulation Authority is already doing a lot of work to review the 20 firms suspected of involvement in SLAPP activity. The SRA is shortly to issue its regulated professionals with another warning notice, which will provide guidance on conduct in such disputes. It has already outlined guidance on certain oppressive behaviours, and has expressly linked those to the growing focus on the use of SLAPPs in England and Wales.

As the right hon. Member for Birmingham, Hodge Hill knows, there are many different tactics—aggressive letters, labelling correspondence and seeking to run up bills, as he rightly identified—that challenge people's access to justice. They are exactly what the SRA is looking at and will be communicating with the MOJ about.

Dame Margaret Hodge: First, will the Minister describe the action that, according to him, the Government are taking? I do not understand what action they are taking.

Secondly, the new clauses that my right hon. Friend the Member for Birmingham, Hodge Hill tabled were written by a group of lawyers who support the UK Anti-SLAPP Coalition. They are not like the new clauses that we put together—they have been given considerable consideration—so I do not quite see how they could be bad law. They have thought this through.

Thirdly, there is a real tendency—I say this with the greatest respect and affection for the Minister's work—for Ministers to shift a bit a paper to the left or right and do nothing with it. It is the easiest thing to do. We have described this as a once-in-a-lifetime opportunity to change the world; I plead with the Minister to grasp it and accept the new clauses. Let us move forward, rather than shifting the paper aside.

Tom Tugendhat: I am surprised to hear the right hon. Lady speak so negatively about her other amendments and new clauses. New clause 64 is not the only one that is well drafted; others have been as well. New clause 64 focuses, quite rightly, on getting anti-SLAPP provisions into the Bill, but it would extend the reach a bit further than we could take. I am happy to look further at the issue. I am happy to listen carefully to the opinions not only of the right hon. Lady, but of the people who advised the right hon. Member for Birmingham, Hodge Hill, on different approaches to the question. I am extremely happy to listen, but I am afraid we will not accept the new clause.

Seema Malhotra: When the Minister talks about looking more closely at this new clause, does he mean in the proceedings on the Bill?

Tom Tugendhat: I will be looking closer at the new clause in the proceedings on the Bill, but whether it makes it through will not necessarily be my final decision, as she knows very well. I would be interested to hear the arguments of the people to whom the hon. Lady has spoken.

Liam Byrne: I am grateful for the chance to intervene, because I sense that the Minister has almost reached the conclusion of his remarks without giving the Committee the date on which a more comprehensive proposal, which is what he argues for, will be presented to the House. We know that the Ministry of Justice has already conducted its consultation, and that the consultation responses have been analysed, but we have not had a hard date from either the Leader of the House or the Justice Secretary. If the Minister is in reassuring mode, he could perhaps furnish us with that date now.

Tom Tugendhat: I am afraid I will have to ask the Ministry of Justice for that information, but I am happy to write to the right hon. Gentleman. With that, I rest.

Liam Byrne: The truth is that people will be appalled by this debate. We gathered an enormous number of campaign groups and journalists together in the House on Tuesday evening, at a function that I had the privilege to co-sponsor with the right hon. Member for Haltemprice and Howden. The kinetic energy behind reform is significant. The law will change—we will get there—but the question is whether this Government want to be the authors of that change or continue to oppose it.

Every single day that the law does not change, bad people and bad lawyers will be racking up millions of pounds in legal costs in order to intimidate and stop

publication by journalists who are hunting the truth. I am afraid that is not a good place for this Government to be in.

James Daly (Bury North) (Con): I refer the Committee to my entry the Register of Members' Financial Interests. The question I have is not a challenge to what has been said. As a practising solicitor I agree with the points the right hon. Gentleman is making, but the new clause would impact upon some general points regarding the professional duties of solicitors to their clients. A solicitor accepts a brief and then has to act in the best interests of that client and do various other things. If that involves criminality, it is a different question altogether. The Law Society is very much behind these proposals; what further regulation or advice should there be for solicitors to ensure that they can act within legislation such as that proposed?

The Chair: Order. The hon. Gentleman referred to his entry in the Register of Members' Financial Interests but did not specify what it was or how it was relevant to his question.

James Daly: I apologise; I said I was a practising solicitor part way through my intervention. I mentioned that because I was touching on the legal profession, how it interacts with legislation and professional duties, as also mentioned by my right hon. Friend the Minister for Security.

Liam Byrne: The hon. Member is not just a practising solicitor, but clearly also a recovering solicitor. The SRA has been on the front foot in wanting to crack down on some of the bad behaviour. We had this debate in January on the Floor of the House; it was one of the best debates I have seen in 18 years in this place. What became clear was that, although there are some in the legal profession who do have to operate on that cab-rank rule—they have to step forward and plea in favour of people who are at the front of the queue—there are others who have choices about who they represent. The truth is that here in London there are groups of lawyers, such as Schillings—there are many others—who are making millions out of some very bad people. In fact, those people are so bad that they have subsequently been sanctioned, in this country and around the world.

Dame Margaret Hodge: Does my right hon. Friend agree that if the SRA were to fine those solicitors who engaged in that sort of false litigation—it is phony litigation—it would be a little cost on business given the millions they are making? Abramovich, for example, is worth, as far as we know, £12 billion. If he spends £50 million on a legal case, it is peanuts to him, and it is certainly peanuts to the solicitors who are subject to fines by the SRA.

Liam Byrne: My right hon. Friend is absolutely right that the whole strategy behind a strategic legal action against the public participant is not to win: they just want to damage their opponent to such an extent that they cannot afford to tell the truth.

It has been a disappointing debate, and it will disappoint many of the people who are watching and following it. It is unfortunate timing, because the anti-SLAPP coalition is coming together for its second annual conference on Monday, when it will publish a draft and more comprehensive law. We have not had a date from the Minister as to when the Government may have listened and brought forward a more comprehensive argument. If the argument is that the measures I am moving today are too fragmented or nugatory, that is fine, but let us hear the date for when a more comprehensive solution will be proposed. The Secretary of State for Justice has said it will be forthcoming but has not provided the date. That was the point of the new clauses: we want to know the date.

3.30 pm

I will not press my new clauses to a vote because I do not have the numbers in Committee, but I suspect I will on the Floor of the House. That is why they will come back on Report, in due course. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 66

DEFAULT SUPERVISORY AUTHORITY FOR INDEPENDENT LEGAL PROFESSIONALS

"Where an independent legal professional is not a member of any of the professional bodies listed in Schedule 1 of the MLRs 2017 but undertakes regulated business within the scope of Regulation 12 of the MLRs, the Solicitors Regulation Authority will be the default supervisory body for that independent legal professional."—*(Liam Byrne.)*

Brought up, and read the First time.

Liam Byrne: I beg to move, That the clause be read a Second time.

In a way, new clause 66 builds on the debate we have just had, but it takes the proposed reform in a slightly different direction. The Minister is well aware that in earlier debates we touched on the problem that when lawyers engage in work that falls squarely within the scope of money laundering regulations, there is a risk that regulated activity can slip through the cracks in the supervision regime because of the lack of a default supervisor for the legal sector. When a lawyer is engaged in regulated activity but is not a member of a particular legal supervisory regime, high-risk work is in effect unsupervised. I do not think that is where the Committee wants things to be.

In particular, the problem can occur in relation to wills, estate planning and estate administration, but it potentially extends to quite a wide range of individual legal professionals. For example, unregistered solicitors who do not have a practising certificate are prohibited by law from acting as solicitors, but may still offer other regulated services without being subject to the SRA's supervisory authority. As the Government's recent review of the anti-money laundering regulatory and supervisory regime highlighted, the absence of a default supervisor for those lawyers leaves us with a significant supervisory gap. I think it is a hole in the supervisory regime that the Minister will want to fix. We tabled the new clause to uncover what his strategy might be.

Seema Malhotra: It is a pleasure to speak briefly in support of new clause 66, tabled by my right hon. Friend the Member for Birmingham, Hodge Hill. He laid out clearly his reasons for doing so, and I think we all share his concern.

[Seema Malhotra]

The new clause concerns the introduction of a default supervisory authority for independent legal professionals, and includes provisions such that when an independent legal professional is not a member of any of the professional bodies listed in schedule 1 to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, but undertakes regulated business within the scope of regulation 12 of them, the Solicitors Regulation Authority should be the default body for that independent legal professional.

As my right hon. Friend outlined, it is concerning that legal professionals who are not members of any professional legal bodies are still undertaking activities and taking cases. It is effectively a loophole that can enable rogue actors to act as legal professionals without the supervision or membership of a professional body, thereby avoiding scrutiny of their actions, which could facilitate economic crime and money laundering. Clearly, we need a solution. My right hon. Friend suggested that it is a problem that the Government need to fix; we would be keen to work with them on how that will happen. I think we all want to find a solution, and to do so before the Bill goes much further through the House.

Tom Tugendhat: I thank the right hon. Member for Birmingham, Hodge Hill for tabling the new clause and the hon. Member for Feltham and Heston for her comments on how it is designed to elucidate answers for procedure rather than to push for a change in the law. There is a lot that really does need further investigation, but the reality is that although we should all seek to prevent legal professionals from undertaking activity connected to money laundering, the new clause would not quite do that.

As the hon. Member for Feltham and Heston will know, there are currently nine UK professional body supervisors—known as PBSs—that supervise legal professionals for anti-money laundering purposes. Of course, the SRA is one of them. They cover different professions and the different jurisdictions: England and Wales, Scotland, and Northern Ireland. Supervisors already work closely with the Office for Professional Body Anti-Money Laundering Supervision—OPBAS—which we spoke about earlier, to ensure full compliance.

The vast majority of legal professionals are already carefully conducting strong anti-money laundering work. However, the Government's review of the UK's AML regime, published in June, identified concerns in the legal sector that a small number of professionals may be unsupervised. The examples are limited to some specific and small subsectors, such as specialist wills and estate planners and one or two unregistered barristers.

The review concluded that further reform of the supervisory regime is necessary to improve its effectiveness and proposed four options for reform, which could include giving the SRA, or other legal sector supervisors, a greater role. The review committed to taking forward a public consultation to develop the options further, which is necessary given the potential scale of the reform and the need to ensure that we fully understand the risks and impact of our final decision. I reassure Members that the Government are focused on ensuring that the reform addresses the problems identified in the review, including that of supervisory gaps.

The new clause would require the SRA to supervise independent legal professionals in Scotland and Northern Ireland who are not regulated by any of the professional bodies listed in the money laundering regulations. Additionally, each AML supervisor currently represents different legal professions with diverging practices and processes. In the absence of broader AML reforms and appropriate resourcing, it would be difficult for the SRA to supervise those who are not currently members of its own regulated community, as the new clause would require.

I share the desire of the right hon. Member for Birmingham, Hodge Hill to strengthen our supervision regime; however, given the ongoing reforms to AML supervision that would be interrupted by the new clause, and its likely impact on the SRA, it would not be appropriate to accept it at this moment. I therefore urge the right hon. Gentleman to withdraw the motion.

Liam Byrne: The Minister made the case for the new clause rather well. I am grateful for his confession that significant numbers of businesses are in effect not covered by a default supervisor. If anything, he will have alarmed those listening from the other place who will, no doubt, want to pick up the new clause and build on it, especially given the Minister's intention—sotto voce, I think—to try to move in the direction of reform.

The point I want to underline is that the challenge we are presenting is not about firms that are covered by a supervisory regime; our worry is about firms that are not covered. The Minister wisely began his remarks by talking about the nine different sets of legal sector supervisors. He may know that almost a quarter of legal firms visited by these nine supervisors were assessed as being non-compliant with AML rules, and 71% of the firms visited by the biggest legal sector supervisor—the SRA—have not put in place an independent audit function to gauge the effectiveness of their AML policies, controls and procedures. He may also know that 60% of the firms that were subject to a full on-site inspection by the SRA were not fully compliant with requirements to have in place adequate AML policies, controls and procedures. This is a significant problem.

I think the Minister is indicating that the Government are open to reform. It was not clear to me precisely which aspects of the new clause were being opposed, but we think that the place to really get this done in a thorough way may be the other place, safe in the knowledge that the Bill will come back to the Commons in a much healthier state. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 67

CIVIL ASSET RECOVERY IN CASES OF ECONOMIC CRIME

"The Secretary of State must by regulations make provision for costs in civil recovery proceedings involving economic crime to be awarded against the enforcement authority only where the respondent can show that the enforcement authority has acted unreasonably, dishonestly or improperly."—*(Liam Byrne.)*

Brought up, and read the First time.

Liam Byrne: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 68—*Criminal asset confiscation in cases of economic crime*—

"The Secretary of State must by regulations make provision for the parties to bear their own costs in criminal confiscation proceedings following an unsuccessful prosecution of an economic crime."

Liam Byrne: The new clause would cap legal costs where the Government try to bring unexplained wealth orders into effect. That point was picked up by the Foreign Affairs Committee when it was ably chaired by the Minister for Security. It also featured heavily in the economic crime manifesto which the other Minister helped launch in Westminster Abbey not too long ago, in the heady days of summer, when he was among the leading campaigners for cleaning up economic crime—his apprenticeship for the Bill in many ways.

You will know, Sir Christopher, that we have a real problem in this country, in that we introduced a brilliant legal reform back in 2018—I cannot remember whether that was one, two or three Governments ago, but it was introduced by a Conservative Administration and supported by Members across the House. Indeed, when I was in Washington with the Minister earlier in the year, unexplained wealth orders were lauded by the Department of Justice, the Department of the Treasury and everyone else we met as a really serious bit of legal innovation that the rest of the world could learn from. It fell to us to explain that all four of the unexplained wealth orders that have been moved so far have failed. Of course, one reasons that they are failing is because the poor National Crime Agency—I mean poor financially—is having to go up against some of the richest people in the world, and is simply being outgunned and outspent in court.

The case of Aliyev is a good example. I think it was the second unexplained wealth order, and the National Crime Agency sought to target properties owned by Ms Nazarbayeva and her son Nurali Aliyev. It was always going to be a difficult case, because the mother was the Speaker in Kazakhstan's Senate and a successful businessperson—she was named in *Forbes* and all those kinds of things. Her son, who is an investor and entrepreneur, had founded Capital Holdings JSC, a business that manages about 25 different companies. However, the National Crime Agency suspected that the source of Nurali's property wealth was his father, who had held several senior public roles in Kazakhstan and had fallen out with the Government. Unfortunately, he died in suspicious circumstances in 2015. The NCA suspected that the father had been involved in bribery, corruption and money laundering, and it had prayed in aid lots of good evidence in order to substantiate its case.

The enormously complex legal structures involved in the case meant that the National Crime Agency had to serve the unexplained wealth order against a host of offshore companies that owned the properties. It had to serve against the London solicitor Mr Andrew Baker, who was a trustee of the complex arrangements. Two of the properties were bought by companies in the British Virgin Islands and sold on to Panamanian companies. A third was sold from a BVI company to a company in Curacao, and then to another in Anguilla. It was the classic type of case that the Bill is designed to police.

In early April, however, Mrs Justice Lang discharged the unexplained wealth order that had been granted, because of new evidence that had been presented. Reuters subsequently reported that the protagonists in the case were seeking £1.5 million-worth of costs from the National Crime Agency, which had to fork out an interim payment of £500,000. Given that the NCA's anti-corruption budget was only about £4 million in the year in question, Members can see what kind of impact such tactics can have. In the United States, which is much better at this than we are, there is a much stronger cost-control regime.

Again, this measure that has cross-party support. I think the hon. Member for Amber Valley (Nigel Mills) sought an amendment to the Criminal Finances Act 2017 that would have changed the law so that costs could not be awarded on an indemnity basis. I am no expert on that particular amendment, but it was rejected by the Government. None the less, there have been efforts by hon. Members across the House to try to get a handle on the matter.

3.45 pm

Kevin Hollinrake: The right hon. Gentleman says that there is a much stricter cost-control regime in the United States. He is clearly not aware that there is no such regime in the United States, because no adverse costs are awarded. It is a completely different legal system.

Liam Byrne: I meant, in summary, the economic effect. The impact is that agencies have much greater latitude to bring cases against bad people in American courts without fear of what it will do to their enforcement budget. That is exactly where we need our enforcement agencies to be. If we are going to strengthen their hand, to really effectively police the problem and to respect what the Government need to do, namely, to ensure that we maximise the effectiveness of our enforcement agencies within tight budgets, the measure should, I hope, be accepted by the Government. I am delighted to have had the opportunity to move the new clause.

Stephen Kinnock: I wish briefly to concur with my right hon. Friend's every word. He has made a powerful case about unexplained wealth orders. That was something of a false dawn for the reasons he set out. Similar to what we said about SLAPPs, we are concerned about the chilling effect—the vast disparity between the financial firepower of the people that the UWOs seek to go after and that of the NCA and, frankly, the British state.

My right hon. Friend's new clause would absolutely push the Bill in the right direction. It provides a means for us to level the playing field. On the basis of that common-sense proposal, we can start to have serious conversations about how to crack down on some of the kleptocrats. I thank my right hon. Friend for his clause and the manner in which he has proposed it. I hope that the Minister will seek to champion it rather than oppose it.

Tom Tugendhat: I am grateful for the intent behind new clause tabled by the right hon. Member for Birmingham, Hodge Hill. He has an absolutely valid point—we need to equalise the firepower between some of the organisations. We have a fundamental challenge,

[Tom Tugendhat]

because we cannot assume that arising from the actions of a UWO, which is not a human rights action but to do with civil litigation, costs should fall on the losing party. We must look at how to balance the different elements.

My own inclination would be look more at how we fund our agencies to do this work. Some members may have heard that I once was in the Army. The way the armed forces does such things is by having two different forms of budget—the ongoing budget and the war reserve. I am much more inclined, and much more persuadable, towards the argument that we should be making sure that the agencies that take on such claims have a war reserve to ensure that they can meet the costs without that affecting their ongoing work, rather than changing the law in a way that would affect civil liabilities in many different areas.

Dame Margaret Hodge: To be honest, I do not think that would prevent the impact that the fear of incurring costs would have on how any of the agencies operate. Everyone in the House has great respect for Bill Browder, and I am sure that the Minister will have talked to him about the issue, and I know that the Under-Secretary has, too. Bill Browder is completely shocked and astounded by the fact that we allow any costs at all to be claimed by successful litigants when they challenge Government action.

I do not know whether either Minister had the chance to meet Judge Mark Wolf, who is over here campaigning for an international anti-corruption court. I do not know whether they have come across him. He was here last week and, when we talked about such litigation, he expressed absolute astonishment that defendants in any of these cases, have the right to any of their costs being met. In America, looking at those figures, great success comes from that hugely important lack of ability to claim costs.

Tom Tugendhat: It is worth pointing out that the Americans do not use unexplained wealth orders, which, after all, are civil litigation, because they do not have them. Therefore, the question of costs does not apply in the same way.

Dame Margaret Hodge: I would not use the example of unexplained wealth orders. They have not worked in the way that we had all hoped and intended. On the failure to prevent bribery, if we think of the acts that the Serious Fraud Office has been engaged in—I think it is with Serco, where they face a couple of million pounds in claims and costs. It goes right across the panoply of tools that we have to fight economic crime.

Tom Tugendhat: This new clause clearly focuses on the Proceeds of Crime Act 2002 and the different ways in which it would be affected. I will not accept it, for the reasons that I have given; I believe it expands far too far into other areas of civil litigation. I do, however, take the right hon. Lady's point entirely. The ways in which our agencies can defend themselves has already been on my plate for many, many weeks.

Liam Byrne: The Minister has had quite an education since becoming a Minister and joining the ranks of the Government, because, of course, it was in the Foreign Affairs Committee report on tackling illicit finance in which he authored a number of quite strong words about the need to reform and improve the regime for unexplained wealth orders, which are an important legal innovation. They are looked up to by enforcement agencies from around the world, and it is a national embarrassment that they are not working. It could well be, as the Minister argues, that the right answer is to create a war-fighting fund for our enforcement agencies, but that would have been possible if the Government had not opposed all the amendments that we suggested to create and restock the war chest that might be needed.

I appreciate that in this business a politician's first instinct is to want to have their cake and to eat it, but unfortunately the Minister voted against putting us in that position at an earlier stage in the Bill. It is therefore important to send a clear signal to the other place that this is an important set of reforms for the Government to focus on and get right. I will therefore press the new clause to a vote.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 8.

Division No. 17]

AYES

Byrne, rh Liam	Malhotra, Seema
Hodge, rh Dame Margaret	Morden, Jessica
Kinnock, Stephen	Thewliss, Alison

NOES

Ansell, Caroline	Hughes, Eddie
Crosbie, Virginia	Mann, Scott
Daly, James	Stevenson, Jane
Hollinrake, Kevin	Tugendhat, rh Tom

Question accordingly negatived.

Ordered, That further consideration be now adjourned. *—(Scott Mann.)*

3.53 pm

Adjourned till Tuesday 29 November at twenty-five past Nine o'clock.

Written evidence reported to the House

ECCTB 28 UK Anti-Corruption Coalition

ECCTB 29 OneID

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT
GENERAL COMMITTEES

Public Bill Committee

ECONOMIC CRIME AND CORPORATE TRANSPARENCY BILL

Nineteenth Sitting

Tuesday 29 November 2022

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not later than

Saturday 3 December 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 29 November 2022

[Mr Lawrence Robertson *in the Chair*]

Economic Crime and Corporate Transparency Bill

New Clause 69

Prevention of continued trading for companies repeatedly declared insolvent

"(1) A company may not be registered under the Companies Act 2006 if, in the opinion of the registrar of companies, it is substantially similar to a company which has been subject to winding up procedures under the Insolvency Act 1986 on more than three occasions in the preceding ten years.

(2) For the purposes of subsection (1), 'substantially similar' can include, but may not be limited to, a company having the same or similar—

(a) name;

(b) registered office;

(c) proposed officers; or

(d) principal business activities

as another company."—*(Gavin Newlands.)*

This new clause seeks to prevent companies from repeatedly becoming insolvent and then continuing to carry on the same business activities through a new company (the practice of "phoenixing").

Brought up, and read the First time.

9.25 am

Gavin Newlands (Paisley and Renfrewshire North) (SNP): I beg to move, That the clause be read a Second time.

It is a pleasure to serve under your chairmanship, Mr Robertson, and it is fantastic to rise to do something more worthy in Committee than pour water for my hon. Friend the Member for Glasgow Central.

I accept completely that, as has been said many times, the Bill is excellent and we just need to tighten it up, and that it contains provisions, including on unique identifiers, that will help to block some of the more obvious means of carrying out the practice of phoenixing, which has been discussed both when we took oral evidence and throughout line-by-line scrutiny. However, it is my view, and that of many others, that we are missing a golden opportunity to fully address phoenixing with the Bill and to tighten up all parts of the regulations relating to Companies House.

The genesis behind new clauses 69 and 70 is a specific directorate and company the businesses of which have unfortunately harmed my constituents and many others across Scotland and throughout the UK. New clause 69 would stop those who burn through multiple limited companies leaving a train of destruction in their wake, with little or no recourse for the authorities. It would not prevent those who have no nefarious or ill intent but find that their company is unsuccessful, even on more than one occasion. It would not apply automatically to any individual who hits the three winding-ups limit; it would only allow the registrar to act if there were grounds to do so.

Around 10 years, a company called HELMS—Home Energy and Lifestyle Management Systems—controlled and operated by a man named Robert Skillen, went door to door in my constituency offering solar panels and home insulation as part of the now-scrapped UK Government green deal scheme. You will be pleased to know, Mr Robertson, that I do not intend to go over the whole story; suffice it to say that hundreds of my constituents and thousands of people across Scotland are still paying the price to the tune of thousands of pounds each.

Skillen was able to wind up HELMS, move on to his latest venture with millions in his back pocket and face no consequences for his personal actions. He is an individual—there will be thousands like him—with a long track record of extracting maximum value from his scams via limited companies and then setting up shop for a new crack at it, having defrauded thousands of people. He even had the cheek to set up a company to assist those who had been defrauded by his previous company to receive compensation from which he would receive a cut. That type of individual is currently beyond the reach of the law; hopefully, provisions such as the new clause would assist with that.

Mr Skillen was fined £200,000 by the Information Commissioner's Office and £10,500 by the Department of Energy and Climate Change, as it was at the time, but the fact is that of that £200,000 he paid only £10,000 before winding the company up. That led the ICO to lobby the Government to enable it to fine individuals such as Robert Skillen up to £500,000.

In respect of cases such as those of Mr Skillen and many others who make sharp practice look easy and do so without any care or remorse, the new clause would act as a deterrent to the manipulation of company registration for personal gain and enrichment and prevent those who have used multiple company identities for malfeasance or sinister purposes from continuing that pattern of behaviour ad nauseum. I stress that the point of the new clause is not to prevent those who have had genuinely unsuccessful businesses from starting afresh. The registrar should be able to separate those cases from those of people with evil intent.

Companies House already has the power to disqualify directors and the new clause would simply allow it to consider slightly wider grounds on which such a disqualification could rest. It would help to put an end to the cases that every Committee member will have encountered in their constituencies of companies taking payment for goods and services, shutting up shop with the cash pocketed and then popping up again under a different name but carrying out exactly the same work. The purpose of the new clause is to tease out from the Minister the Government's approach to phoenixing. With that, I rest.

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairship, Mr Robertson, and to follow the hon. Member for Paisley and Renfrewshire North, who made a very important speech. New clause 69 would introduce new provisions to prevent the continued

trading of companies repeatedly declared insolvent and the practice of phoenixing, which the hon. Member outlined. It states:

"A company may not be registered under the Companies Act 2006 if, in the opinion of the registrar of companies, it is substantially similar to a company which has been subject to winding up procedures under the Insolvency Act 1986 on more than three occasions in the preceding ten years."

A company may be "substantially similar" to previous companies in terms of its name, registered office, proposed officers and so on. This would mean that there is more scrutiny, and questions are raised about whether a company should be able to continue trading.

It is very important, for the reasons we have outlined in Committee, to seek to protect the public and other businesses from unscrupulous operators effectively carrying on their business activity and going through the same cycle of building up debts, which leads to consumer issues, and simply disappearing and starting again. We must deal with that behaviour, which is a route through which economic crime takes place, and that is why we support the new clause. We will listen closely to the Minister's response on how the Government propose to tackle the issue of phoenixing.

I note the similarity between the intentions of this new clause and new clauses 28 and 46, tabled by my hon. Friend the Member for Aberavon and I, which we have discussed. In different ways, all those new clauses would tighten up glaring loopholes around strike-off, insolvency and phoenixing that enable those who are participating in economic crime to avoid scrutiny. We welcome the new clause, and we look forward to the Minister's response.

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. I appreciate the spirit of the amendment, and I also appreciate the hon. Member for Paisley and Renfrewshire North describing this as an excellent Bill—a very constructive point—but one that needs tightening up; I understand his points and applaud the efforts made by him and other Opposition Members to do so.

I am fully aware of the devastating consequences that such issues have on businesses, suppliers, supply chains and our constituents. I have a case of a gentleman called Scott Robinson who repeatedly closed his investment business down. It was called TBO Investments at one point and then became Mount Sterling Wealth. He effectively took his clients with him, and people lost huge amounts of money. They had provided money for him to invest based on supposedly low-risk investments, but he was actually gambling that money in very high-risk investments, and he did that time and again. I really sympathise with the spirit of the amendment, and I am keen to look at not just phoenixing but other types of situation where people deliberately take risks like that that have devastating consequences for consumers and businesses in our constituencies.

Gavin Newlands: The Minister says he will look at this and is sympathetic to the issue. For clarity, does that mean a later stage beyond the Bill or at a later stage of the Bill?

Kevin Hollinrake: In my view, it needs further work rather than just plonking the new clause in the Bill. There is a wider issue here and I am pleased to see that he seems to acknowledge that. Certainly, a piece of work is needed to look at this in detail. There are some measures in place already—just the pre-pack arrangements subject to Committee scrutiny. I will come on to that in a second.

There are existing provisions in the Bill that provide safeguards against the fraudulent phoenixing behaviour that the new clause targets. Section 216 of the Insolvency Act 1986 makes provision for restriction and prohibition on the re-use of a company name when new companies are formed, which is an intrinsic feature of phoenixing and one that the hon. Gentleman addresses in his new clause. That provision will be complemented by the new powers contained in the Bill. For instance, the registrar may choose to exercise the power to compel the production of information to help her determine whether an application to incorporate a company complies with the proper delivery requirements. They will include that those named as prospective directors can lawfully act as such, which would not be the case if they were barred under the 1986 Act from acting as a director of a company using a prohibited name, and the registrar would be empowered to reject the incorporation application. Furthermore, the registrar will have greater power to direct companies to change their names if they deliberately mislead in their purpose. Such powers provide the registrar with a powerful tool when considering new company registrations.

The registrar will be able to examine and interrogate information already held and share data with law enforcement partners and other authorities. That will allow other key characteristics such as verified identities, the registered office, proposed officers and business activities to be critically assessed with intelligence received to spot patterns of phoenixing.

If adopted, the new clause would be largely duplicative of provisions already in place or those introduced by the Bill. It would also erode the registrar's discretion in the application of their powers as envisaged. There will be some instances when companies are captured by the new clause and are not culpable, but are merely victims of a legitimate business failure trying to start their enterprise. For instance, the new clause mentions companies that have

"been subject to winding up procedures".

In that situation, they may be companies that have not necessarily gone into liquidation. There might be other legitimate reasons that those procedures have taken place, which may not be reflective of something that might be considered phoenixing. So, the registrar must be allowed to apply their powers according to the facts and information available. As I have said, I am keen to look at that, including the pre-pack rules, to see where we can tighten up on the matter to make sure those instances are minimised. For all those reasons, I hope the hon. Member will withdraw his new clause.

Gavin Newlands: I thank the Minister for his response. The new clause was very much a probing amendment and the Minister points out one weakness. It is a small new clause for dealing with quite a big problem and I may look to table a much more rounded amendment on Report. With that, I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 70

BAR ON DIRECTORS IN BREACH OF DUTIES RECEIVING PUBLIC FUNDS

"(1) A company with a director or directors which are in breach of the general duties outlined in Chapter 2 of the Companies Act 2006, or who have been found to have committed statutory breaches of employment law, may not receive Government provided funds or financial support, unless subsection (2) applies.

(2) A company whose director or directors meet the criteria outlined in subsection (1) may receive Government provided funds or financial support if such funds or support are provided solely and specifically for the direct benefit of the company's employees."—*(Gavin Newlands.)*

This new clause seeks to prevent directors who fail to comply with their duties as a company director or with employment law provisions from being able to access funds in instances where these funds are for the benefit of the company and not the company's employees.

Brought up, and read the First time.

Gavin Newlands: I beg to move, That the clause be read a Second time.

It is like London buses—I am back. I do not propose to take as long to speak to new clause 70, which proposes to turn off the tap of public funding to those who have failed to discharge their duties under the Companies Act or who have failed to discharge their duties to their company's staff. I mentioned Mr Skillen previously, and his local constituency got in touch with me to tell me that he is back in business and that his company had been in receipt of public funds. The aforementioned Mr Skillen is currently a director of four limited companies, each one coming after the winding up of HELMS. Those companies are interlinked via control and ownership structures. Through that, Government loan funding was applied for and granted just before Mr Skillen became a director and owner of a large chunk of the new enterprise.

My new clause is very simple and would prevent those who fail to discharge their duties from receiving public money or support for any company for which they are listed as a director. Mr Skillen's modus operandi was to misuse and mis-sell under the Government's green deal scheme, but he popped up a few years later at a company benefiting from taxpayer funding and is involved in the energy business as well. It is simply not good enough that policy interventions intended to promote a wider economic strategy, be it local or national, are manipulated and used by spivs who are able to hide behind company registration and face no barriers to their actions from the registrar, short of the nuclear option of being barred from acting as a director.

We have seen a number of cases over recent years of multinational companies, such as P&O Ferries and, not quite to the same extent, British Airways, breaching their duties as employers and breaching employment law. Indeed, the chief executive of the former happily admitted breaking the law while appearing before the Transport Committee's joint session with the Business, Energy and Industrial Strategy Committee. Such blatant and open law breaking cannot be rewarded with taxpayer support, and the new clause would ensure that those breaching laws that are meant to protect workers cannot then dip into the same workers' pockets for financial support. It would not impact on workers, because any funding, such as for a furlough scheme, would not be affected by the new clause.

Seema Malhotra: This is a useful new clause, in the spirit of some of the new clauses that we have tabled on what should and should not be available to directors who are in breach of their duties, disqualified and so on. The new clause, tabled by our colleagues from the SNP, would introduce new provisions that bar directors who are in breach of their duties from receiving public funds. Under the new clause, a company with a director or directors who are in breach of the general duties outlined in the Companies Act 2006, or who have been found to have committed statutory breaches of employment law, should not receive Government-provided funds or financial support unless it is solely and specifically for the purpose of directly benefiting the company's employees.

This is an important debate, and I would be interested in the Minister's response. When taxpayers find out that their money goes towards effectively supporting or enriching directors who are in breach of the Companies Act, there will be a real question about what the Government can do to further disincentivise and not reward those who are in breach of employment law or other areas of legislation. We support the sentiments behind the new clause and the arguments being made, and I look forward to the Minister's response.

Kevin Hollinrake: I thank the hon. Member for Paisley and Renfrewshire North for his new clause; again, I support the motivation behind it. Clearly, there are restrictions already. Where a director has failed to observe a specific duty under the Companies Act 2006, they will potentially find themselves liable to criminal sanction and disqualification. I accept the fact that we have not focused too much on that area in the past, but that is exactly why we are legislating in the Bill to make the registrar far more proactive in her work. Where an employer has committed a breach of employment law, the relevant statute will generally provide appropriate remedies either by way of a right of action for the worker—normally in an employment tribunal or the courts—or by way of state enforcement, or sometimes both.

The new clause seeks to isolate only two triggers for denying access to financial support. Although they may have merit as triggers, who is to say that there are no other matters of conduct on the part of either a company or its directors that might lead one to question the wisdom of awarding it taxpayers' money? Obviously, that should be determined within the scheme rules. The hon. Gentleman pointed to a case in which a director was interlinked with four other companies. There are already restrictions on Government loans—covid loans, for example—which must be taken into account where there are interlinked schemes, and he is probably aware of that.

9.45 am

The hon. Gentleman said that companies would still be able to access the furlough scheme to protect workers, because subsection (2) stipulates that may receive such funds where those

"funds or support are provided solely and specifically for the direct benefit of the company's employees."

It is more than possible to argue that the furlough scheme did not just benefit the employees. Normally, in that situation, companies would have made huge numbers redundancies, which can be quite expensive for companies themselves. The new clause does not carve out the furlough scheme, so it could put workers' jobs at threat.

The hon. Gentleman has raised a very good point, but the new clause is probably not the right way to tackle it, and I hope he will withdraw it.

Gavin Newlands: I appreciate the Minister's response. To pick up on a couple of his points, he said that there are already remedies available, but as we have seen there are far too few for employees who suffer at the hands of a nasty business owner. We have all seen such cases on the news or from our own case loads.

The Minister mentioned the regulations governing covid loans. Clearly, that is a very specific example, and he makes a fair point, but that is not the case for all public moneys. However, this is a probing provision and would require further work before I sought to test the Committee or the Chamber with a vote. I therefore beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 71

SUSPICIOUS ACTIVITY REPORTING: RISK RATING

"(1) The Proceeds of Crime Act 2002 is amended as follows.

(2) After subsection 339(1) insert—

'(1ZA) An order under subsection (1) must prescribe that a risk rating be included as part of a disclosure.'"—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge (Barking) (Lab): I beg to move, That the clause be read a Second time.

I will be on my feet for a bit, so I will try to be succinct—I know that Members have other things to do this afternoon. *[Laughter.]* It may be impossible for me. I want to say quite a lot about this new clause.

New clause 71 is about reforming of the suspicious activity reports regime. Ministers will accept that the SARs regime is a central tool in our defence against money laundering, but I hope they also accept that the current system is broken—it is not working. The new clause would introduce a new risk rating system, which would transform the efficacy and efficiency of the current regime.

SARs are very valuable and a vital source of intelligence. They are made mainly by financial institutions, but also by solicitors, accountants or estate agents, and they report suspicious activity. They have been absolutely instrumental in a range of successful actions against criminal activities, locating sex offenders, tracing murder suspects and identifying those involved in online child abuse, and they have shown how young women are trafficked into the UK. They have also been instrumental in closing down fraud and money laundering.

To give one example of a successful case involving fraud, a vulnerable elderly man in his 80s was the victim of a fraudster who had gained his personal details through a cloned website, when the elderly man believed that he was making a genuine investment. The reporter who saw the transaction going through was suspicious when the fraudster tried to impersonate the victim and access his main funds. He reported the transaction, and the UK Financial Intelligence Unit, which operates the SARs regime, received that report. The unit immediately passed it on to the enforcement agency—I wish this happened every time—which visited the victim in his house. The agency was then able to quickly contact the institution where the transaction was supposed to take place. It reported that the suspicious activity was wrong and confirmed the real identity and bank details of the elderly man, which all prevented him from losing in excess of £80,000.

This scheme is therefore important, and it is successful when it works well. However, at present, the sheer volume of SARs and the limited resources available mean that the information is not analysed and often simply not used. In evidence to the Treasury Committee, Mark Steward, the director of enforcement at the Financial Conduct Authority, said:

"More needs to be done in order to get more out of the valuable data that is in there. Otherwise, it just sits there."

Graeme Biggar, also giving evidence to the Treasury Committee, as director general of the National Economic Crime Centre, said:

"Twenty years ago, we got 20,000 suspicious activity reports in, largely from banks. This year, we would not be surprised if we got three quarters of a million, and the number of defence against money laundering SARs, where we are told in advance and given the option to refuse permission to proceed, is going to double, we think, this year. The sheer volume coming through is really significant and very hard to deal with."

According to research from Spotlight on Corruption, only 118 people handle the SARs. That is one employee to 4,250 SARs. The Australians, who have a similar enforcement regime, and who have also experienced an explosion in SARs, have a staff complement of one to 1,400—three times better than our own. The Committee has often talked about the relative budgets for enforcement of the UK and the USA. The USA has increased funding of the Financial Crimes Enforcement Network by 30%, and its staffing by 50%. The Minister should recognise that the Federal Bureau of Investigation's budget is now 15 times larger than the National Crime Agency, although our population is only five times smaller than America's.

The Financial Action Task Force review in 2018 said SARs should be reformed, and SARs were criticised by the FATF. The Treasury Committee report in 2019 talked about SARs reform. In 2017, the Government had announced a reform programme for SARs, led by the Home Office together with the NCA. That reform programme constituted action 30 in the economic crime plan. The intent was to have an IT transformation, better analytical resources and capabilities, and an improvement in SARs processes. That SARs programme was reviewed by the Government's Infrastructure and Projects Authority, and was given an amber rating in 2021. So reform started in 2017, the programme was given an amber rating in 2021, and today, in 2022, it is not complete and there is no timetable from the Home Office—maybe the Minister can help with that—or a target date for completion, which was a criticism the Treasury Committee made of the programme. Delivery was originally promised by December 2020, but we are two years on from that and we are a long way from seeing SARs completed.

[Dame Margaret Hodge]

In that context, new clause 71 introduces a risk-rating regime. I do not think anybody thinks that is a crazy idea, and I hope the Minister will—just for once—adopt one of the suggestions that the Opposition have made in Committee. I hope he will not say that we do not need the legislation. We are nearly six years on from when the reform programme was announced, and reform has not happened. The Government cannot, despite the best efforts of right hon. Member for Uxbridge and South Ruislip (Boris Johnson), ignore legislation, although they seem to be ignoring the desire to reform the SARs programme.

If Ministers want action, which they have consistently said they seek with the Bill, they should accept new clause 71. If they simply see this measure as party political, they should not. We do not deal with the funding issue in the new clause, but we will ensure that the focus is on the most significant SARs. That will lead to more enforcement. I urge the Minister to adopt our new clause.

Seema Malhotra: It is a pleasure to speak briefly in support of the new clause tabled by my right hon. Friend the Member for Barking. It would amend the Proceeds of Crime Act 2002 such that any disclosure made as part of the suspicious activity reporting regime must include a risk rating. My right hon. Friend outlined very effectively the reasons why the new clause is important. Much of the evidence in our meetings at the outset of the Bill, which set out the context and stakeholder views, it was clear that the SARs regime was failing. The databases of referrals were going unreviewed and unlooked at, because the resources were not there. There was no effective means that we could see of prioritising SARs fed into the NCA.

SARs is an essential tool in our defence against money laundering, but if the system is not working, something needs to happen. Having an extra step in the process to help with prioritisation, look at risks and deal with those identified as higher risk would help, as my right hon. Friend outlined, to bring in quality, at a time when we know that quantity is the new battle. She said that the current estimate is three quarters of a million referrals, which is extraordinary. Given the scale and types of economic crime, the number of referrals is likely to get worse, not better. That is a good thing if we are starting to highlight and refer more cases as we start to clean up our systems. However, we then need to deliver on that; otherwise, the downside is that we will reduce confidence among those doing the referrals that anything will actually happen.

Nigel Kirby of Lloyds Bank said in his evidence to the Committee:

"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."—[*Official Report, Economic Crime and Corporate Transparency Public Bill Committee,* 25 October 2022; c. 19, Q26.]

I think we have some agreement that the system itself is important, essential and necessary but that it needs wholesale reform to make it more efficient and effective and to ensure that it does what we ask of it.

The Minister for Security (Tom Tugendhat): I thank the right hon. Member for Barking for the new clause. I will slightly gloss over one element and focus on something she mentioned several times—I always listen carefully to what she says—about the comparison between the FBI and the NCA. I take the comparison, but the NCA is not a direct comparator for the FBI. After all, the FBI includes the equivalent to MI5. It also includes counter-terrorism police and a lot of what we call regional organised crime units. It includes a lot of other areas of policing that simply do not come under the NCA's budget, so the comparison of budgets is not apples and oranges; it is more like apples and cider—the bulk of one and the punch of the other are not quite the same. I hope the right hon. Lady will forgive me for saying that that is not entirely a fair comparison.

That said, the NCA does an enormous amount of good work and uses SARs in many different ways. I have the figure here: the UKFIU received and processed nearly 600,000 SARs in 2019-20. That has increased significantly every year. The action taken has resulted in about £192 million being denied to criminals in 2019-20, up 46% on the previous year. So this is something that we are already using heavily.

10 am

Dame Margaret Hodge: We all think that SARs is a helpful regime. I wonder whether the Minister has been given the information by the NCA. It got more than half a million SARs, but how much of that data did it use to get the millions that it got in? That is a heck of a lot of data, which should yield a huge amount of valuable information.

Tom Tugendhat: First, not every SAR leads to an actionable offence. Many of them are simply, and quite rightly, reports. They are reports because there are suspicions, but suspicion does not necessarily mean guilt. Many times these are companies that are taking on clients or that have clients who are suspicious, and they want to be sure they are doing the right thing so, responsibly, they report in. We should not confuse the absolute number of reports with a level of criminality. That would not be fair on the British population, those doing the reporting or the NCA, which is looking into these things.

Alison Thewliss (Glasgow Central) (SNP): I did not mean to stop the Minister in mid-flow. He says that the number does not necessarily correlate to criminality. Is he concerned to hear that trust and company service providers have provided only 31 SARs, according to Graeme Biggar when he gave evidence to the Treasury Committee? A total of 31 seems impossibly low for the number of trust and company service providers, compared with what comes in from others.

Tom Tugendhat: The hon. Lady makes a fair point, but as she knows well that is not the point of the new clause, which is about the supervision of SARs and the ways in which they are checked and verified. That said, I have listened carefully to her and will have a look at that, because I do appreciate the point she makes. That said, I think these codes already enable the NCA to triage effectively, although if she has better ideas I am happy to listen and look at them further. However, I am to be convinced, because I think the Bill already addresses the areas she indicates. I get the point she is trying to make, but I am not sure that her suggestions would lead to a significant improvement on what is already there.

Dame Margaret Hodge: I am trying to untangle what the Minister said. If he is open to further discussions, I do not think that there is a rating regime. All we are saying is that there should be a rating regime so that the most urgent cases come at the top. My understanding is that that does not exist. There may be some form of triaging that I am not aware of. We just want to introduce a rating regime. If he is willing to engage in discussions before Report, I am happy not to put the matter to the vote. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 72

OFFICE FOR PROFESSIONAL BODY ANTI-MONEY LAUNDERING SUPERVISION: POWERS AND DUTIES

"(1) The Secretary of State must by regulations set out a further power and duty for the Office for Professional Body Anti-Money Laundering Supervision.

(2) The power referred to in subsection (1) is the power to impose unlimited financial penalties on Professional Body Supervisors that fail to—

(a) adopt an effective risk-based approach to anti-money laundering supervision;

(b) impose proportionate and dissuasive sanctions for non-compliance with anti-money laundering requirements; and

(c) fail to separate their advocacy and regulatory functions.

(3) The duty referred to in subsection (1) is the duty to publish the details of any sanctions imposed on Professional Body Supervisors, and its reviews of Professional Body Supervisors with data disaggregated by body rather than by sector."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Question put, That the clause be read a Second time.

The Committee divided: Ayes 6, Noes 8.

Division No. 18]

AYES

Hodge, rh Dame Margaret	Morden, Jessica
Kinnock, Stephen	Newlands, Gavin
Malhotra, Seema	Thewliss, Alison

NOES

Anderson, Lee	Hollinrake, Kevin
Ansell, Caroline	Mann, Scott
Crosbie, Virginia	Stevenson, Jane
Daly, James	Tugendhat, rh Tom

Question accordingly negatived.

New Clause 73

OFFENCE OF FAILURE TO PREVENT FRAUD, FALSE ACCOUNTING OR MONEY LAUNDERING

"(1) A relevant commercial organisation ('C') is guilty of an offence under this section where—

(a) a person ('A') associated with C commits a fraud, false accounting or an act of money laundering, or aids and abets a fraud, false accounting or act of money laundering, intending—

(i) to confer a business advantage on C, or

(ii) to confer a benefit on a person to whom A provides services on behalf of C, and

(b) C fails to prevent the activity set out in paragraph (a).

(2) C does not commit an offence where C can prove that the conduct detailed in subsection (1)(a) was intended to cause harm to C.

(3) It is a defence for C to prove that, at the relevant time, C had in place procedures that were reasonable in all the circumstances and which were designed to prevent persons associated with C from undertaking the conduct detailed in subsection (1)(a).

(4) For the purposes of this section 'relevant commercial organisation' means—

(a) For the offence as it relates to false accounting and fraud, 'relevant commercial organisations' are defined as—

(i) a body which is incorporated under the law of any part of the United Kingdom and which carries on a business (whether there or elsewhere),

(ii) any other body corporate (wherever incorporated) which carries on a business, or part of a business, in any part of the United Kingdom,

(iii) a partnership which is formed under the law of any part of the United Kingdom and which carries on a business (whether there or elsewhere), or

(iv) any other partnership (wherever formed) which carries on a business, or part of a business, in any part of the United Kingdom, and

(v) for the purposes of this section, a trade or profession is a business.

(b) For the offence as it relates to money laundering, 'relevant commercial organisations' is defined as—

(i) credit institutions;

(ii) financial institutions;

(iii) auditors, insolvency practitioners, external accountants and tax advisers;

(iv) independent legal professionals;

(v) trust or company service providers;

(vi) estate agents and letting agents;

(vii) high value dealers;

(viii) casinos;

(ix) art market participants;

(x) cryptoasset exchange providers;

(xi) custodian wallet providers."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 74—*Failure to prevent fraud, false accounting or money laundering: director liability*—

"(1) If an offence under section [*Offence of failure to prevent fraud, false accounting or money laundering*] is committed by a body corporate and it is proved that the offence—

(a) has been committed with the consent or connivance of an officer of the body corporate, or

(b) is attributable to any neglect on the part of an officer of the body corporate, the officer (as well as the body corporate) commits the offence.

(2) For the purposes of this section, 'officer' means—

(a) a director, manager, associate, secretary or other similar officer, or

(b) a person purporting to act in any such capacity."

Dame Margaret Hodge: I will speak for a little longer on new clause 73, but hopefully we will get through the others more quickly. It is probably one of the most important new clauses that we have tabled. It sits with new clause 79, which we will come to a little later. If we can make progress on this issue, we will be putting some better meat on the bones of what is still quite timid legislation.

We all want to do all we can to prevent economic crime from occurring in the first place. Prevention and early intervention is obviously the best, cheapest and most effective way of tackling the problem of dirty money. We want to stop it happening in the first place. We also all know that much economic crime takes place because lawyers, company service providers, accountants, bankers or estate agents either enable or collude with bad actors, helping them or turning a blind eye to the things that they do, thus enabling money to be laundered, crime to be committed, and our systems to be used to commit financial crimes.

There is currently too little in our laws and regulations that will stop the enablers—accountants and all the others—supporting and enabling economic crime. Companies and individuals are not held to account for what they do. The new clause aims to put a halt to that. We need to reform our outdated corporate liability laws so that not only companies but senior managers can be prosecuted if they fail to prevent fraud, false accounting and money laundering. It is not because we want to have endless prosecutions, or to fill prisons with these enablers, but because the threat of criminal prosecution will act as the best and most vital deterrent in preventing professionals from helping criminals to launder and manage their dirty money.

As we have said time and again in Committee, most professionals act with integrity. Those professionals with integrity have absolutely nothing to fear from the new clause. Indeed, the majority, who act responsibly, should welcome the change, because it will help us to clean up their profession, get rid of the bad apples and restore our reputation as a trusted jurisdiction. The Minister knows very well—I am trying to find the right Minister—

Kevin Hollinrake: I know as well.

Dame Margaret Hodge: Both Ministers know that reform has been promised, and delayed, for a long time. The 2015 Conservative manifesto committed to making it illegal for companies to fail to put in place measures to prevent economic crime. The 2017 Ministry of Justice consultation on corporate liability reform sat for three and a half years. Inexplicably, it found that there was not enough evidence to pursue reform. I can only imagine that the Ministry was strongly lobbied. It said there was not enough evidence despite the fact that 76%, or three out of four respondents, said that the identification doctrine, which we will come to, inhibits the holding of companies to account for economic crime, and that two out of three respondents thought that corporate liability reform would result in improved corporate conduct. Despite all that, the Ministry chose not to pursue reform.

We then got the Law Commission's review in 2022. It found that the current situation was "highly unsatisfactory" and that, on the status quo on corporate liability, "the identification doctrine"—for fraud and money laundering, the way in which we determine whether the people involved represent the "directing mind and will" of the company and can therefore be held responsible—

"is an obstacle to holding large companies criminally responsible for offences committed in their interests by their employees."

The commission said that the status quo is "unfair" and that if the law remains unchanged it

"will continue to enable large companies to be acquitted for conduct which would see small businesses convicted."

It also stated that that

"could diminish confidence in the criminal law"

and, finally, that the status quo incentivises poor corporate governance and

"rewards companies whose boards do not pay close attention."

Given all that, I cannot think of a stronger indictment of the status quo.

There are endless examples of where our failure to modernise our criminal liability law has led to failure in the courts. The Barclays bank action is probably the most infamous, or famous, of them all. In 2008, during the financial crisis, Barclays wanted to avoid nationalisation and entered into a deal with Qatar, from which it received more than £11 billion and a loan of £3 billion. The bank, however, also set up what was called an advisory service agreement—in a sense, as I can say under parliamentary privilege, it was a bribe—and, under it, £322 million was given to those who facilitated the deal between Qatar and Barclays bank.

The Serious Fraud Office tried to prosecute the bank and its chief operating officer with charges of conspiracy to commit fraud and charges involving "disguised commissions"—in my interpretation, bribes. The court threw out all the charges, saying that the alleged criminal dishonesty of senior officers "could not be attributed" to Barclays. So the chief executive could not be held responsible for what the bank did, because the chief executive was not the bank, but reported to the bank. It was a crazy judgment. The court also dismissed cases against other individuals, as they could not be defined as the "directing mind and will" of Barclays.

There was, then, a Barclays fiasco, but there were other examples, such as the LIBOR rate-rigging scandal. No criminal prosecutions were brought, although the individuals prosecuted gave evidence that their managers knew what they were doing, so the company itself was liable. If the Minister for Security will allow this comparison, the US brought criminal enforcement action against 12 of the banks in the LIBOR scandal—British banks—and extracted $3.4 billion in criminal fines. Other examples include HBOS—to which the Under-Secretary often refers—Serco and the tagging contract, London Capital & Finance, and so on and so forth.

In 2022, four parliamentary Committees called for the reform of corporate criminal liability legislation. In February 2022, the Treasury Committee urged the Government to

"act quickly in bringing forward any legislation flowing from the Law Commission's review. In the meantime, corporate criminals will continue to be able to escape prosecution for economic crimes."

I probably do not have to quote this one, as the Minister might remember it, but the Foreign Affairs Committee called for

"reform of outdated and ineffective corporate criminal liability laws which mean that it is difficult to hold large companies to account for economic crimes."

10.15 am

In October 2022, the Justice Committee recommended that

"A failure to prevent fraud offence should be introduced to hold companies to account for fraud occurring on their systems and encourage better corporate behaviours."

In November 2022, the House of Lords Fraud Act 2006 and Digital Fraud Committee found that the reform

"of corporate criminal liability will be essential in order to maximise the impact of the Fraud Act and other legal tools going forward",

and in order to

"hold corporates across all sectors to account and to inspire behaviour change."

Finally, let me quote the Under-Secretary. On Second Reading of the Bill, he said:

"I have said many times that the No. 1 measure we need is an extension of the failure to prevent provisions on bribery and tax evasion, which have been so effective. People say that we talk a lot and never get anything done"—

hear, hear!—

"but the bribery provisions have been massive in holding corrupt companies to account. The Serious Fraud Office has deferred prosecution agreements for Rolls-Royce for Airbus, with almost £1 billion in fines going to the Treasury. The SFO also prosecuted the GPT Special Project Management Ltd case. The SFO does not get many successful convictions but GPT Special Project Management Ltd pleaded guilty in Southwark Crown court in 2020, and paid £28 million in financial forfeitures as a result, on the back of the Bribery Act 2010."—[*Official Report*, 13 October 2022; Vol. 720, c. 308-309.]

On another occasion, the Under-Secretary said:

"Criminal fraud at Lloyds HBOS was proven in 2017, and the cover-up associated with that is an utter disgrace. We are yet to see the Dobbs review, which later this year should identify the scale of the cover-up by Lloyds of what went on at HBOS. We have also seen the problems with Royal Bank of Scotland's Global Restructuring Group"—[*Official Report*, 7 July 2022; Vol. 717, c. 1043.]

I could go on; does he want to hear all of his speech?

Kevin Hollinrake: No, I remember it very well.

Dame Margaret Hodge: Anyway, I thought it was a speech in favour of the intent of this new clause.

Failure to prevent offences have proved effective elsewhere, as the Minister himself has said. We use them to tackle bribery and tax evasion, and the Minister always raises the best example when he refers to what used to go on in the construction industry. In my youth, people would regularly have terrible accidents on construction sites, some of which were fatal. It was only when a duty was introduced for those who ran construction companies to ensure the health and safety of their workers in the workplace, meaning it would be a criminal offence if they failed to do so, that miraculously, overnight, deaths on building sites came almost to a 100% halt. We have lots of examples of where a failure to prevent does not end up with people being locked up but does change behaviour. That is what we are trying to do.

I have lots of examples of areas where the Bribery Act 2010 has been successful and this is not one. This is the last legislative opportunity we will have in this Parliament to put into effect something that Members across the House think is important. There is so much evidence from so many bodies emphasising the importance of this bit of legislation. I cannot see any argument for delay. Before they reached their great, really important roles on the Front Bench, both Ministers argued passionately, frequently and loudly for this reform. I hope they will accept the new clauses, together with new clause 79, on the identification principle. With the inclusion of those three new clauses, we can hold our heads up high and say that we have done good work in Parliament.

Stephen Kinnock (Aberavon) (Lab): It is a pleasure to serve under your chairship, Mr Robertson. I pay tribute to my right hon. Friend the Member for Barking. The passion and eloquence with which she spoke was exemplary in terms of reminding us about what is at the heart of the Bill and one of the top priorities that we want to achieve. I do not want to say much more; how can I follow that?

New clause 73 would introduce a new offence of failing to prevent fraud, false accounting or money laundering, and new clause 74 would extend that offence, so I shall take them together. In effect, the new clauses would extend current failure to prevent offences beyond bribery and tax evasion to other economic crimes, money laundering and fraud. The offences would be applicable both to companies themselves and to senior managers or directors.

The Labour Front Bench team welcomes the new clauses tabled by my right hon. Friend the Member for Barking as vital to help to drive cultural change and corporate governance standards for the prevention of economic crime in the UK. They would also standardise criminal rules for holding companies to account across different economic crimes.

The call for this change is supported by a number of stakeholders, including Spotlight on Corruption, which made the following argument in written evidence to the Committee:

"Most urgently, a new failure to prevent fraud offence would help address the UK's serious fraud epidemic. Fraud accounts for 40% of all recorded crime, but fraud prosecutions have fallen from 42,000 in 2011, to 13,500 in 2021 in the last decade, a 67% decrease. According to the Crown Prosecution Service (CPS): 'an extension of the "failure to prevent" model to fraud, false accounting and money laundering would be unlikely to require companies to do more than what they would already be expected to do under the current law (which relies on the identification doctrine) but it would enable prosecutors to hold them to account more effectively where they fail to do so'. The heads of the Serious Fraud Office (SFO) and the CPS have both recently called for new failure to prevent offences."

I refer the Minister, in addition to the stakeholders that support the call for change, to his own words on Second Reading. I will not replay his greatest hits—that my right hon. Friend the Member for Barking has already done so—but he has stated clearly that he sees this offence as "the No. 1 measure" that we need. The Opposition fervently hope that both Ministers will agree with their former selves that this is the No. 1 measure we need in the prevention and detection of economic crime. We urge the Conservative Front-Bench team to accept the new clause as a necessary and urgent provision to tackle economic crime that would have support across the board.

Alison Thewliss: I, too, rise to support the new clauses, which are incredibly important.

"Of all the measures we have talked about today, this would have the biggest effect in terms of cutting down on economic crime, because lots of our financial organisations are complicit when it suits their interests to be so."—[*Official Report*, 13 October 2022; Vol. 720, c. 309.]

If the Under-Secretary recognises those words, it is because they are his own from just a few weeks ago, on 13 October 2022. What a long time it has been; here we are today at the end of November.

It is important that we use the new clauses as an opportunity. As the right hon. Member for Barking said, this is an opportunity to make this change now and get it right. It cannot be said that the Ministers present do not agree with the measures. The Under-Secretary argued for a failure to prevent economic crime offence not just on 13 October 2022 but on 7 July 2022 and 1, 22 and 28 February 2022, on 2 December 2021, on 9 November 2021, on 22 September 2021, on 18 May 2021, on 9 November 2020, on 25 February 2020, on 19 July 2019, on 23 April 2019, on 18 December 2018 and on 9 October 2018. Why have we got to the point today where he is arguing against something that he has argued for so consistently and repeatedly in this House?

Kevin Hollinrake: Will the hon. Lady give way?

Alison Thewliss: I will if the Minister can give me an explanation as to why he is not going to back the new clause.

Kevin Hollinrake: When have I argued against it?

Alison Thewliss: I suspect that if it goes to a vote, he will vote against the new clause, so he does not even need to argue against it. If it goes to a vote, he and his colleagues will vote against something that he has consistently and repeatedly supported in this House. He knows in his heart of hearts that this is the right thing to do. I am very interested to know whether, if the Government will not support the new clause—whether it goes to a vote or not—they will introduce something similar on Report. Both Ministers know that this is the right thing to do. The opportunity is here in the Bill. If the opportunity is there and the will is not, that leaves huge questions for the credibility of the entire Bill.

Tom Tugendhat: I am delighted to speak on the new clause. As the right hon. Member for Barking correctly identifies, it touches on many areas that my hon. Friend the Under-Secretary and I have spoken about on numerous occasions, and we are not alone in having done so. Section 172(1)(b) and (d) of the Companies Act 2006 speaks about the interests of employees and of the community being the responsibility of directors as well, so having an emphasis on directors' responsibility in corporate legislation is not new. My hon. Friend the Under-Secretary has also spoken about it in building safety legislation, which the right hon. Lady cited.

There are many different examples of our recognition that the interests of the whole of society and of the whole United Kingdom are better protected when directors understand that they are there not simply to advance shareholder value, but to further the interests of the whole community of their employees and wider society in actions and responsibilities they undertake. Although I see all of the responsibility laid out and I take very seriously the point the right hon. Lady made, we still need to do a little bit of work on how this can be made to work. There are arguments, some of which hold water, about whether the 2017 money laundering regulations include elements that already cover some of these areas, and there are arguments about whether the Law Commission will want to look at different bits of this. I can assure the right hon. Lady that I will look at this extremely seriously, because she is absolutely right that the Bill offers an opportunity to introduce different reforms. I will look to make sure that any opportunity is fulfilled as quickly as possible.

Dame Margaret Hodge: I am grateful for that. The hon. Gentleman referred to the Companies Act 2006—I cannot remember which section. In the days when Tony Blair changed our jobs every year, I was lumbered with taking through the biggest Act in Parliament. We deliberately put that section in, in the face of massive opposition. At the time there was a front page story in the *FT* that said, "How dare you talk about any interest but shareholder interest?" But the provision has stood the test of time, I am pleased to say, and I am glad to hear him cite it.

I do not want to embarrass Ministers today by putting the issue to a vote. I know that they feel strongly about this, but so do we—really strongly. The Bill will not pass any litmus test of its potency if the new clause is not included. I know there will be resistance because the professions that would be subject to the new potential criminal liability are very strong in lobbying. They are probably strongly lobbying the Department for Business, Energy and Industrial Strategy, as well as the Treasury and other Government Departments. I say to Ministers that they have to resist that lobbying with every bone in their bodies, because this is not an attack on any profession. There ought to be a new offence that cleans up the profession, and we will pursue this issue right through every phase and stage of the Bill's passage.

I want to say one final thing to the Minister. Of course we need to make the new clause work, but for goodness' sake, we have the same offence in the Bribery Act and the tax evasion legislation, and it works perfectly well.

10.30 am

Kevin Hollinrake: The right hon. Lady makes a very important point about vested interests. We have previously discussed the influence of people who may not be keen on these kinds of clauses. I would say to anybody in the financial services sector who is making these claims that there are potentially huge benefits from preventing fraud across the board, because 70% of online fraud, which costs banks a lot of money, comes from platforms, and this kind of legislation could make the platforms responsible for removing content. So the sector could see benefits as well as potential new obligations.

Dame Margaret Hodge: I am grateful to the Minister for reinforcing my argument. I would add simply that the same is true of the online harms Bill. If we had director liability there, I think we would see a lot of the online harms disappearing, but that is for next week.

On how the new clause would work, we can mirror processes that take place in other bits of legislation. To say that it is already covered is a nonsense, because we would not have had the failure of the Barclays case and all the other cases that I cited to the Minister had we already put in place legislation that was appropriate for ensuring that companies and their directors are held to account. I will not put the matter to a vote, but this is a hugely important issue. I look forward to our debating it further at other stages during the course of the Bill. I wish Ministers well in their attempts to get it past the Government, but if they do not, Parliament will do so. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 75

THE ECONOMIC CRIME COMMITTEE OF PARLIAMENT

"(1) The Secretary of State must by regulations establish a body to be known as the Economic Crime Committee of Parliament (in this section referred to as "the ECC").

(2) The ECC will consist of nine members who are to be drawn both from the members of the House of Commons and from the members of the House of Lords.

(3) Each member of the ECC is to be appointed by the House of Parliament from which the member is to be drawn.

(4) The ECC will have the power to meet confidentially.

(5) The ECC may examine or otherwise oversee any regulatory, enforcement or supervision agencies involved in work related, but not limited to—

(a) tax avoidance and evasion by corporations;

(b) illicit finance;

(c) anti-money laundering supervision;

(d) tackling fraud;

(e) kleptocracy and corruption; and

(f) whistleblower protection."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

I have been promoting accountability for years now. In the work that I did with the Minister as we thought about how we could tackle economic crime and turn round the tanker, we always said there were four ways in which we had to respond. One was through having not more regulation, but smart regulation. The second was through tough enforcement. The third was through broad transparency—the ruling of the European Court of Justice last week is an absolute nightmare that could create real difficulties for us in the economic crime space. The fourth was accountability, and with the new clause we are suggesting a way for us to have that accountability.

There is interest in this subject across the House. The hon. Member for Hitchin and Harpenden (Bim Afolami) has written a paper on these issues. Can we find a mechanism for holding the regulatory bodies properly accountable to Parliament for what they do?

A lot of these questions arose when I chaired the Public Accounts Committee and we first started looking at tax avoidance. The rule is that everybody should be equal before the law in tax, but there was always a suspicion that sweetheart deals were being struck with certain big corporations and high net worth individuals. In fact, early on we came across one involving Goldman Sachs; on the back of a story in *Private Eye*, we uncovered a sweetheart deal. To this day, though, I do not understand whether Google is paying the correct tax or whether there is a deal there, and I could say the same about a lot of the big multinational companies. Because of the confidentiality of taxpayers' interests, Parliament has no way to get the information that it needs to assure itself that the tax authorities are treating all taxpayers equally.

I have worked with all the agencies in this area—the NCA, the Serious Fraud Office, the Metropolitan police and so on—so whistleblowers, or just people who come across something that is wrong, often come to me, and I give the case to one of the agencies—and that is the last I ever hear of it. I always pursue the cases, but all too often I get the response, "Oh, there are security reasons for you not being given the information." There was the Savaro case, which I referred to BEIS at the time. It went through BEIS and I still do not know whether anybody was pursued. Certainly, there were people behind that explosion in Lebanon, which led to so many deaths and loss of property.

I think that Parliament needs a better hold on what is happening and better accountability around how those agencies are operating. In the new clause, we suggest that we mirror the Intelligence and Security Committee, which meets under Privy Council terms. The proposed economic crime committee could be a Committee of both Houses, meeting under Privy Council terms and overseeing all the regulatory bodies in this space—in financial services and economic crime. It could call for papers relating to individual cases, which would remain confidential because the ECC would meet in private. The ECC could then produce reports on systemic changes that are necessary, arising from consideration of those individual cases.

I think that that would massively improve accountability, as well as the performance and effectiveness of the agencies. With that information, members of the ECC would have a better understanding of what, if anything, they needed to do as legislators to improve the situation. I believe that this committee will happen one day, but I am proposing it today as a new clause in this Bill. I know that the hon. Member for Hitchin and Harpenden and those who support him in this mission would be happy to support me today, and I hope that Ministers give it a good hearing.

Stephen Kinnock: I am happy to support new clause 75, tabled by my right hon. Friend the Member for Barking, which would require the Secretary of State by regulation to establish a body to be known as the economic crime committee of Parliament.

The new clause is driven by and based on the fundamental principles of transparency and accountability. Our call for those two principles to be adhered to is important because it recognises that the structures for reviewing progress, and scrutinising and reviewing economic crime, are simply not good enough. There is too much siloed thinking. This aspect of scrutiny does not sit neatly within BEIS, the Treasury, the Home Office, or the Ministries of Defence and of Justice; it really spans the waterfront, yet those Departments are all vital parts of what should be a systemic approach to tackling economic crime.

[Stephen Kinnock]

The proposed committee would consist of nine Members drawn from the House of Commons and the House of Lords, with each member of the ECC appointed by their respective House of Parliament. The ECC would have the power to meet confidentially; it could examine or otherwise oversee any regulatory enforcement or supervision agencies involved in work related to, but not limited to, tax avoidance and evasion by corporations, illicit finance, money laundering, fraud, kleptocracy, corruption, and whistleblower protection.

We welcome the new clause as it would introduce a vital mechanism for transparency and accountability within the Bill. If the Minister does not agree with it, we hope that he will acknowledge that the existing mechanisms are unfit for the kind of joined-up, systemic, expert-driven scrutiny that is needed to keep pace with and keep ahead of economic crime. Throughout this Committee's proceedings, my colleagues and I have tabled amendments and new clauses designed to increase the scrutiny and transparency of the measures that the Bill will introduce, so as to ensure that when they are implemented, they are as effective as possible. If the Minister is not able to support the new clause, Parliament and the country more broadly would need him to come up with something better.

Alison Thewliss: I wholeheartedly agree with the new clause. When the Treasury Committee looked at this issue, what struck me was that economic crime was nobody's priority. Our report said:

> "Economic crime seems not to be a priority for law enforcement. The number of agencies responsible for fighting economic crime and fraud is bewildering."

If it is bewildering in that sense, it is bewildering to Parliament, too. This is a BEIS and Home Office Bill, yet it has huge Treasury implications and huge security implications, and that gets to the heart of why this new clause is so important. There needs to be a body in Parliament that holds all these agencies to account in one place. If BEIS does a little bit, and the Home Office does a little bit, and security does a little bit, and the Treasury does a little bit, there will not be the cohesive scrutiny of all those agencies that is needed. Committees could well be palmed off with different responses by different agencies, with nobody consistently holding them to account.

The work of the Treasury Committee is very wide ranging. We have two meetings a week, and that is not enough to cover all the issues we need to cover. Setting up a bespoke Committee that could build up expertise on this issue would allow for that accountability. It could meet in private if it needed to, although it would ideally meet in public. The point is that it would keep an eye on all the things that we have agreed to in the Bill, and we would be holding all these agencies and Ministers to account in a consistent way. The reports of the ECC would also, we hope, be taken seriously, and its recommendations implemented.

It is not really enough that the Treasury Committee or another Committee looks at economic crime every once in a while and sees how things are going. The Treasury Committee has done that previously, looking back at previous reports and asking, "How are things going now?" but there is not that week in, week out consistent scrutiny of what is happening. Without scrutiny and consistency, it is difficult to see how the Government will get this right. We are legislating here, but legislation cannot be put on a shelf and left; it has to be living legislation that is scrutinised on a regular basis. A committee of sort proposed in the new clause really would give Parliament a lot of power to ensure that these measures are implemented correctly and that the agencies responsible for economic crime, which affects all of our constituents, continue to be held to account.

Tom Tugendhat: The right hon. Member for Barking will not be surprised to hear that I am a huge fan of parliamentary scrutiny, not just of Government but of various issues that others have sometimes felt are not in the immediate remit of the scrutinising Committee. As she will be aware, I received some criticism when the Foreign Affairs Committee, which I was fortunate to chair, focused so clearly on economic crime in 2017-18—in fact, it was some of the first work that we did—because of the national security threat that it poses to the United Kingdom. Its importance in foreign policy is very clear.

The Treasury Committee has done an awful lot of extremely good work on this issue; over the years, it has done some excellent reports on economic crime. The Public Accounts Committee, the Justice Committee and others have also focused on economic crime at various points. However, while I completely understand the right hon. Lady's argument, I cannot support the new clause, because it is simply not up to a Secretary of State to set up a Committee of the House. As she knows very well, that is a decision for the House; it would therefore not be appropriate to have that provision in the Bill.

I would add that there are various other elements that already scrutinise quite a lot of the agencies referred to. There is the Economic Crime Strategic Board, co-chaired by the Chancellor and the Home Secretary—I know it is within Government, but it is still a challenging body because it supervises the agencies of Government. Various other levels of scrutiny appear at different points, which help to oversee the function of the agencies and different elements that the Government are trying to deliver—that the ministerial element of the Government is trying to get the bureaucratic element of the Government to deliver. It is really important that we keep those intentions.

10.45 am

How the House decides to scrutinise the ministerial and bureaucratic elements of the Government is up to the House. The right hon. Lady can see that I am a strong supporter of parliamentary scrutiny, and there are ways that it can be done without a Committee. Some have argued—but not on this in particular—that we now have so many Members on so many Committees that a quorum is sometimes difficult; whether it would be in this or not, I cannot possibly comment. While I understand her point, I will not support this for the reasons that I have identified, but I sympathise entirely with her intent.

Dame Margaret Hodge: I am sure that, in that spirit, the Minister also accepts that scrutiny by the Executive is different to scrutiny by the legislature.

Tom Tugendhat: Of course.

Dame Margaret Hodge: What we are seeking is scrutiny by the legislature. I take what he said, and will reflect on it. There is cross-party support for this concept; whether we have got it quite right is open to debate, and we will have to find another means of getting it debated in the House. On that basis, I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 76

WHISTLEBLOWING: ECONOMIC CRIME

"(1) Whistleblowing is defined for the purposes of this section as any disclosure of information suggesting that, in the reasonable opinion of the whistleblower, an economic crime—

(a) has occurred,

(b) is occurring, or

(c) is likely to occur.

(2) The Secretary of State must, within twelve months of the date of Royal Assent to this Act, set up an office to receive reports of whistleblowing as defined in subsection (1) to be known as the Office for Whistleblowers.

(3) The Office for Whistleblowers must—

(a) protect whistleblowers from detriment resulting from their whistleblowing,

(b) ensure that disclosures by whistleblowers are investigated, and

(c) escalate information and evidence of wrongdoing outside of its remit to another appropriate authority.

(4) The objectives of the Office for Whistleblowers are—

(a) to encourage and support whistleblowers to make whistleblowing reports,

(b) to provide an independent, confidential and safe environment for making and receiving whistleblowing information,

(c) to provide information and advice on whistleblowing, and

(d) to act on evidence of detriment to the whistleblower in line with guidance set out by the Secretary of State in regulations.

(5) The Office for Whistleblowers must report annually to Parliament on the exercise of its duties, objectives and functions."
—(Dame Margaret Hodge.)

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

This new clause relates to another issue on which there is cross-party support: reform of whistleblowing. It has been put together for me, although it is in my name, by the hon. Member for Cheadle (Mary Robinson), who leads the all-party parliamentary group for whistleblowing. I must put it on the record that she has been a fantastic campaigner in this area and an outspoken champion for the countless courageous individuals who have dared to speak out. As she rightly says, for most of those individuals whistleblowing has shattered their lives, with many losing their health and livelihood. What we are talking about here is really important.

Our new clause would introduce an office for whistleblowers, which would protect the whistleblowers and ensure that their disclosures are investigated and information provided is passed to the relevant authorities. In clause 4, we set out ways in which whistleblowers would provide that service. I think that the hon. Member for Thirsk and Malton is the Minister replying to this debate; I know that he is passionate about this topic, because he has said so on lots of occasions—most recently on Second Reading on 13 October, when he said:

"We do not protect or compensate whistleblowers, and that is wrong. Those people do the right thing and come forward but—not to put too fine a point on it —we hang them out to dry."—[*Official Report*, 13 October 2022; Vol. 720, c. 309.]

He went on to say:

"It is pointless having lots of law enforcement people charging around not knowing where to look. Whistleblowers tell us where to look. Some 43% of all financial crimes are identified through whistleblowers, yet it is something we do not talk about. We do not just need more regulators; we need somebody to point us in the right direction. Regulators will always be watchdogs, never bloodhounds. We need the bloodhounds in the organisations who are willing to speak up if things are going wrong."—[*Official Report*, 7 March 2022; Vol. 710, c. 121.]

Hear, hear to that, but let us have some action arising out of those passionate words.

Whistleblowing plays an absolutely key role in addressing economic crime, whether it is for money laundering or other crimes. Think of the Panama papers 2016—we would never have had them—or the Paradise papers, the Russian and Troika laundromats, the Azerbaijan laundromat, the FinCEN files and the Pandora papers. Let us look at just one of those—the Panama papers—which were 11.5 million legal documents held by the Panamanian law firm Mossack Fonseca. It basically made its money by creating offshore companies and bank accounts to launder and hide the money. The story was given to a German paper, then 370 journalists got involved in investigating the data, working in 80 countries.

Just think what came out of that. Twelve current and former world leaders were named in those papers. There was a $2 billion trail to Putin through his close friend Sergei Roldugin, known as Putin's wallet. The money went all over the world, including into an upmarket ski resort in Leningrad owned by a company funded by this dirty money and where Putin gave his daughter a sumptuous wedding. The Icelandic Prime Minister resigned off the back of the papers. The Pakistani Prime Minister was removed from office due to allegations of corruption and fraud.

Through the leak, some £1.2 billion of tax revenue was restored to 23 national Governments. In the UK, there was an extraordinary list of the rich and powerful, from Kevin Keegan to Nick Faldo, Lewis Hamilton, Tiger Woods, Gary Lineker, Madonna, Keira Knightley, Simon Cowell, Nicole Kidman, the Barclay brothers, Stuart Gulliver of HBSC, and political figures like Arron Banks, Michael Ashcroft and the right hon. Member for North East Somerset (Mr Rees-Mogg). They were all named and exposed.

Going back to my Public Accounts Committee days, the work we did all came from whistleblowers in the area of economic crime. I referred earlier to the Goldman Sachs sweetheart deal. That emerged from a whistleblower—a lawyer working in His Majesty's Revenue and Customs. We had a very frustrating session. We knew something was going on, and we interviewed the head of tax at HMRC, but he would tell us absolutely nothing. I then got a bundle of papers from a lawyer

[Dame Margaret Hodge]

who was working there, and in that bundle was a sheet of paper that had on it two things. It said that a meeting was held by the head of law, and he had said that the head of tax had shaken hands on the deal, which the head of tax had denied at the Treasury Committee. He also said that the deal was unconscionable.

We called back the head of tax and head of law and interrogated them. They still said nothing. Then my hon. Friend the Member for Norwich South (Clive Lewis) said to me, "Put the guy on oath. He might tell you something." That had never happened in a Select Committee. I turned to the clerk, who told me that I could put him on oath, and said, "Go and find a Bible." It took them 20 minutes to find a Bible. But the point is that all that from a whistleblower led to the trail that I think has certainly ended up with me being on this Committee considering the Bill today.

What is so terrible about that story is that the then head of tax left public service, and I asked the person who became the permanent secretary in HMRC every time she appeared before the Committee, "Are you looking after that whistleblower? Is he okay?" She always gave me assurances that he was, but actually they raided his computer and telephone. His marriage broke up, and in the end life became so intolerable that he had to leave public office. It is one of the things I feel great shame about really—that I was not able even in that position to protect him, even though it was his revelations that enabled us to start discovering what was going on.

Whistleblowing helps everywhere. It is a vital way of revealing wrongdoing in all sorts of sectors. It was a child sex abuse whistleblower who helped reveal the child sexual exploitation in Rotherham. The NHS is full of workers who blew the whistle on things such as the lack of personal protective equipment. The Public Accounts Committee saw another example, relating to Serco, where a GP contract was done in Cornwall but they were lying about their performance. A whistleblower came to us, but Serco's response was simply to rifle through everybody's lockers to try to find out who the whistleblowers were. Serco was not interested at all in the fact that the information it provided was inaccurate, or in trying to improve the quality of the service.

Interestingly, whistleblowers in America are treated very differently, particularly on the issue of compensation. To give one example, in the JPMorgan case, there was a $45 million settlement after two whistleblower employees at a Georgia mortgage broker alleged that the bank had scammed a programme that was intended to make it easier for veterans to qualify for loans, and had submitted fraudulent claims to the Government. The whistleblowers were awarded $11 million. Facing the same charges, Wells Fargo later settled for $108 million. A whistleblower revealed massive robo-signing at the four banks that were the country's largest mortgage providers. The companies had allegedly relied on a company called Docx to forge signatures on thousands of mortgage documents. The suit was settled for $95 million, and the whistleblowers received $18 million for helping to expose the fraud.

The Minister well knows the facts that I will give him now. In 2018, 40% of whistleblowers reported going on sick leave—that is the pressure in the workplace. Only 4% of whistleblowers who bring claims under the current legal structure succeed. Of the 1,041 whistleblower reports submitted to the FCA in 2021-22, only three have resulted in any significant action. The Minister must agree that enough is enough. We in this country cannot go on failing to treat whistleblowers with the respect, support and advice that they deserve. Our new clause starts the process of reform. It does not do everything—for example, it does not do financial compensation—but it is a start.

Finally, please do not just say, "We are looking at this." Do not tell us you will come back. This is a once-in-a-lifetime opportunity.

Kevin Hollinrake: The right hon. Lady makes an interesting point about how compensation works in the USA. She will be aware that Protect, the most high-profile whistleblower organisation in the UK, is against a compensation scheme similar to that in the USA. There is good reason for that: very few whistleblowers in the USA actually get compensation, which is one of the flaws in the scheme. Does she agree that we must think carefully about how we introduce whistleblower reform? It needs to be well thought through, rather than simply rushed.

Dame Margaret Hodge: I agree that we have to think carefully, but setting up an office for whistleblowing, which is what our new clause would do, could be the start. We might get some proper expertise in there, so as to think through some of the more complex issues.

Minister, grasp the opportunity and agree with our proposal. It would set up a new office—a central place for any would-be whistleblower to come for advice. It would support regulation in organisations. It would be a central place for setting standards, monitoring, evaluating and reporting. It would ensure that those who inflict or suffer detriment will be properly held to account or properly compensated. An office for whistleblowers would drive up standards across both the private and public sectors, increase transparency and restore public confidence. Whistleblower discrimination is a global problem, and the new office would set a global standard here in the UK.

11 am

Stephen Kinnock: I will be brief because my right hon. Friend the Member for Barking has, again, made the case so eloquently. We support new clause 76. The basic fact is that by their very nature, money laundering and economic crime are very often linked to serious organised crime gangs and hostile states. We are dealing with some pretty frightening people. Without adequate protection, the stakes for an informed insider blowing the whistle are simply too high.

New clause 76 would take those vital first steps to provide more adequate protection for whistleblowers and enable the greater detection of fraud and economic crime by establishing a body specifically set up to both protect whistleblowers and investigate their reports. We feel strongly that the Government must bring forward steps to protect and enable whistleblowers. New clause 76 provides an excellent and strong platform to make that happen.

Alison Thewliss: We also support this important new clause. In a recent speech, the Minister said that 43% of all economic crime was identified by whistleblowers, which illustrates why the new clause belongs in the Bill. We all know from whistleblowers' stories that doing the right thing comes often at a significant cost personally, professionally and financially. It is important that we do anything we can to support those whistleblowers and to make sure they feel comfortable to go ahead and do what they do to ensure that we are all protected. I look forward to hearing the Minister supporting the new clause, because he has supported it umpteen times in the past.

Kevin Hollinrake: I think this is the last occasion I have to address the Committee, so I thank all Members for their contributions. We have had very constructive debates throughout the days that we have looked at the Bill. I thank the officials for all their work in these areas.

Not for the first time, I am very sympathetic to the new clause and to the previous one on failure to prevent. Nothing I have seen or heard since I started as a Minister only a few weeks ago has changed my mind on the things I have said in the House and other places about the need for whistleblower reform and failure to prevent reform. There is no conspiracy behind the scenes here. There is a difference between arguing against the principle of something and arguing against the provisions of something. That is where we probably differ a little.

As the hon. Member for Glasgow Central said, I have said before that 43% is the stat for the discovery of financial crime. In my experience, it is much higher than that—about 100%. Everything I have dealt with has been brought to the attention of authorities through whistleblowers, not least Ian Foxley, my constituent who was very important to the case on GPT Special Project Management Ltd that the right hon. Member for Barking referenced. He was the bloodhound in that case. We need those bloodhounds.

Since taking over as Minister with whistleblowing in my portfolio, I have asked officials to prioritise this review and to get it moving properly, and that is what we have committed to do. There are differences in where we go with it: do we do something to address the cases like Ian Foxley's and the others the right hon. Lady references? Sally Masterton addressed those cases. Do we do something longer term and more complex? It is either low-hanging fruit or something more radical.

My hon. Friend the Member for Cheadle has done fantastic work in this area. I am keen to engage with her and my hon. Friend the Member for Weston-super-Mare (John Penrose) to make as much progress as we can as quickly as we can. Ian Foxley's case is interesting because he was prevented from getting compensation. He was very successful in getting that case highlighted and the authorities successfully prosecuted it, but he was denied compensation because the PIDA rules on what it describes as an employee did not cover his particular category. That is a relatively easy issue to fix and something I want to look at.

The other part of the current legislation is around prescribed persons. There are 80 prescribed persons at the moment: people to whom others can make a protected disclosure. We are extending that this week when I introduce a statutory instrument on extending the number of prescribed persons to whom whistleblowers can go to seek assistance. Indeed, some of those prescribed persons are in this room. Members of Parliament are prescribed persons, as are some Ministers, but so too are our agencies. That is probably my biggest concern.

I took the case of Sally Masterton, who was key to highlighting the HBOS Reading scandal, which I have referred to many times in Parliament, to the Financial Conduct Authority. When I asked Andrew Bailey, who was then the chief executive of the FCA, whether he had followed his own whistleblowing procedures in relation to Sally Masterton, who was terribly mistreated by Lloyds Banking Group, he refused to answer the question because I was not a relevant person, under the relevant legislation. That is quite astounding, when it was Parliament that legislated to introduce the whistleblowing protections in the first place.

There are things that we need to do quickly that would address many of the problems, but we have done much. We have improved the guidance on what a prescribed person needs to do. We have a requirement on people to make public annual reports on what they have done in terms of whistleblowers, but I am keen to hold regulators' feet to the fire in this area. I ask the right hon. Member for Barking not to pre-empt the review that I am urgently undertaking, because she knows how serious I am. I would like to bring forward effective reform very quickly, and to effect change more quickly. I fear that the new clause would delay the reform, when we can make progress by other means.

Dame Margaret Hodge: I hear what the Minister says. I simply say to him that finding legislative time will be a battle, so I hope that he has some mechanism to get the reform through.

Kevin Hollinrake: There are things that we can do without primary legislation that could move much more quickly.

Dame Margaret Hodge: I hear that. This matter will be debated by others on Report. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 79

Identification doctrine

"(1) A body corporate commits an offence listed in Schedule 8 where the offence is committed with the consent, connivance or neglect of a senior manager or senior managers.

(2) An individual is a 'senior manager' of an entity if the individual—

(a) plays a significant role in—

(i) the making of decisions about how the entity's relevant activities are to be managed or organised, or

(ii) the managing or organising of the entity's relevant activities, or

(b) is the Chief Executive or Chief Financial Officer of the body corporate.

(3) A body corporate also commits an offence if, acting within the scope of their authority—

(a) one or more senior managers engage in conduct, whether by act or omission, such that, if it had been the conduct of only one representative, that representative would have been a party to the offence; and

(b) the senior manager who is responsible for the aspect of the organization's activities that is relevant to the offence — or the senior managers collectively — fail to take all reasonable steps to prevent that offence being committed."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

This goes with the failure to prevent, so I will not speak to the new clause. It literally just sorts out the legalese to ensure that we can get at companies and their directors.

The Chair: Order. Does the right hon. Lady still wish to move the motion?

Dame Margaret Hodge: Yes, because I want it on the record. I am just conscious that Members want to get on, and that the argument is the same.

Stephen Kinnock: We fully welcome the new clause, which we think is very important to ensure that all perpetrators of economic crime are caught and dealt with.

Tom Tugendhat: I merely point out that, while the new clause addresses many of the points that the right hon. Member for Barking has raised before, it also raises many of the same challenges. For that reason, I will object to it.

Dame Margaret Hodge: I will not at this point press the new clause to a vote, so I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 80

Forfeiture of recoverable property obtained through economic crime

"(1) Where the conditions in paragraph(2) are fulfilled, a notice may be served in accordance with subsection(4) by the Director of Public Prosecutions, the Director of Serious Fraud Office, or the Director General of the National Crime Agency (hereafter, 'the Director') upon the holder of an account held at a bank in the United Kingdom.

(2) The conditions mentioned in paragraph(1) are that—

(a) the Director has reasonable grounds to believe that property held in the bank account is recoverable property obtained as a result of an economic crime offence;

(b) in relation to the bank account or any property in the bank account, a consent request has been made to an authorized officer under Section 335 of the Proceeds of Crime Act;

(c) an authorized officer refused the consent requested;

(d) a court has granted an extension of a moratorium period for 186 days under section 336A of the Proceeds of Crime Act 2002; and

(e) a court has granted approval to the Director to serve the notice.

(3) A notice under this section shall be a notice by way of representation and shall—

(a) state the name of the holder of the bank account to whom it is addressed;

(b) specify the details of the bank account and of the property or part of the property in the bank account which in the opinion of the Director is recoverable property;

(c) state a date on which, and a place and time at which, the holder of the bank account is required to attend a hearing of the Court to show cause why the property so specified is not recoverable property and should not be forfeited; and

(d) be served on—

(i) the holder of the bank account, and

(ii) the bank at which the account in question is held,

and if an address for service on the holder of the bank account is not known, service on the bank only shall be taken as sufficient for the purposes of this paragraph.

(4) In this section and section [*Forfeiture of recoverable property obtained through economic crime: summary procedure*]—

(a) 'economic crime offence' means an offence listed in Schedule 8 of this Act; and

(b) 'recoverable property' has the meaning given in section 304 of the Proceeds of Crime Act 2002."—*(Dame Margaret Hodge.)*

Brought up, and read the First time.

Dame Margaret Hodge: I beg to move, That the clause be read a Second time.

The Chair: With this it will be convenient to discuss new clause 81—*Forfeiture of recoverable property obtained through economic crime: summary procedure*—

'(1) If the person on whom a notice under section [Forfeiture of recoverable property obtained through economic crime](3)(d)(i) served (the "respondent") fails to attend the hearing as required by the notice, the Director may apply forthwith for a forfeiture order, and the Court may make such an order, without further notice to the respondent.

(2) If the respondent appears (whether in person or by a legal representative) at the hearing, the respondent may—

(a) at the hearing, satisfy the Court that the property is not recoverable property; or

(b) request that the question of whether or not the property is recoverable property be determined at such later date as the Court may order.

(3) If the respondent makes a request under subsection(2)(b), the respondent must provide an affidavit in answer to the notice within the period of 21days beginning with the date on which the matter is placed on the list, satisfying the Court that the property is not recoverable property.

(4) Unless the respondent satisfies the Court that the property is not recoverable property obtained as a result of an economic crime offence, the Court shall, upon the application of the Director, make a forfeiture order in relation to the property specified in the notice or any part of it.

(5) Property which is forfeited pursuant to a forfeiture order under this section shall be paid into the top slice of the Asset Recovery Incentivisation Scheme run by the Home Department.'

Dame Margaret Hodge: I will speak to this very quickly, too. This is an interesting new clause, because its purpose is to tackle the issue of suspicious wealth remaining frozen in bank accounts and serving no useful purpose. We propose a new, more straightforward,

pragmatic solution to deal with suspicious wealth, enabling our enforcement agencies to confiscate the moneys in the bank and repurpose them so that much of the wealth can be used to fund and strengthen our anti-money laundering enforcement capacity and perhaps be given back, in some cases, to the nations from which it has been stolen.

When a banker sees a suspicious transaction, he or she is required to ask for consent from the police to allow the transaction to go ahead. If the police officer refuses consent, the moneys can be frozen in the bank account. Under our new clause, the money would then remain frozen for six months, and the director of the Serious Fraud Office could apply to the courts to confiscate or seize the moneys. They will be granted that application unless the respondent proves to the court that the funds do not have a criminal origin. The onus is on the respondent to prove that he or she has obtained the assets legitimately. The SFO does not have to prove that the respondent committed a criminal activity; it is up to the respondent to prove that the funds are legitimately and honestly acquired and are not linked to acts of criminality. The new clause is modelled on unexplained wealth orders.

This would add an important new weapon to our arsenal in the fight against economic crime, as it provides for the non-conviction-based confiscation of frozen assets. Although they are not my favourite people, the people of Jersey have introduced a very similar law and recently managed to secure £1.7 million that was frozen in accounts there. That was money paid to Lieutenant General Jeremiah Useni, who had held office in the Abacha regime in Nigeria, and the allegation was that it was the proceeds of corruption. Although he tried to get his money back, he could not, and a lot of the £1.7 million went back to Nigeria.

The British Bankers' Association thinks that we have up to £50 million held in frozen accounts, untouched. We need a little touch of boldness from the Minister. He should not just accept the message of "resist" that he gets from his officials. He should give good consideration to this sensible, practical, good idea of seizing money stolen by bad people and giving it back to the citizens who have been robbed, or repurposing it to strengthen the fight against economic crime.

Stephen Kinnock: We welcome these new clauses, which would give effect to the Government's stated intention to unlock the proceeds of crime held in bank accounts to fund law enforcement efforts to tackle economic crime. Their adoption would also optimise the potential of the defence against money laundering regime and streamline the process of UK law enforcement identifying tainted wealth and being able to seek its forfeiture.

Tom Tugendhat: I thank the right hon. Member for Barking. While I agree with the intent behind her new clauses, I argue that they narrow slightly the scope in which the state can already recover much of the proceeds of crime. While they attempt to simplify, the reality is that we are already recovering large sums. I am not saying that we could not do more—we certainly could—but I am not convinced that the new clauses would add significantly to existing legislation. Last year, for example, a record £115 million of proceeds of crime were recovered under existing powers.

Dame Margaret Hodge: That is not a brilliant argument, but I will pursue this issue on Report, as we are doing with other issues around seizing and freezing assets. I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Clause 84

Compensation for Victims of Economic Crime

'(1) The Secretary of State must, no later than 90 days from the date on which this Act comes into force, publish and lay before Parliament a strategy for the potential establishment of a fund for the compensation of victims of economic crime.

(2) The strategy may include provisions on the management and disposal of any assets realised by the government, or any body with law enforcement responsibilities in relation to economic crime, under relevant UK legislation.'—*(Stephen Kinnock.)*

This new clause would require the Secretary of State to prepare and publish a strategy on the potential establishment of a fund to provide compensation to victims of economic crime.

Brought up, and read the First time.

Stephen Kinnock: I beg to move, That the clause be read a Second time.

As this is the last time I will be on my feet, I thank the Committee; it has been an excellent set of debates, and I look forward to further constructive engagement with the Government on these matters.

The context of new clause 84 is the devastation caused by Putin's barbaric and illegal war for the lives and livelihoods of Ukraine's population. This demands a concerted cross-party and international effort, of which the UK should be at the forefront, as the staggering costs of reconstruction are sure to remain a key challenge long after the war itself has reached its inevitable end.

The new clause would require the Government to prepare and publish a wide-ranging strategy for efforts to ensure that the necessary financial compensation is made available to victims of economic crime, wherever they may be. This could and should be applied to victims of international crimes, of which the war in Ukraine is without doubt an example, but it could be applied more broadly as a means of providing a measure of justice to the victims of any other kleptocratic regimes around the world. The new clause would provide a mechanism for compensating victims of economic crime in the UK, including the thousands, or perhaps even millions, of British victims of online scams and other kinds of fraud. We therefore commend the new clause to the Committee, and I look forward to the Minister's response.

11.15 am

Alison Thewliss: If this is indeed the last opportunity I have to speak in the Committee, I thank the Ministers. I hope they have been listening closely to what we recommend and will bring back amendments on Report. I also thank my hon. Friend the Member for Paisley and Renfrewshire North for being so patient and helpful in supporting me throughout the passage of the Bill.

[Alison Thewliss]

The new clause gets to the heart of the matter. Victims of economic crime often receive very little compensation but suffer greatly from the impact of the crime. It can be devastating for people, both financially and personally, and they are deeply affected by it for the rest of their lives, so anything that will go towards helping to compensate those victims seems like a sensible prospect.

Tom Tugendhat: As this is probably the last time I will speak in the Committee, I thank you, Mr Robertson. I also thank the right hon. Member for Barking for her input into the Bill not just today, but over many years and as Chair of the Public Accounts Committee. The way in which she has championed tackling economic crime, drawn the House's attention to it, and focused the country on the real threats that we have faced has been impressive to us all, and I am personally enormously grateful to her. She certainly helped my work enormously when I chaired the Foreign Affairs Committee, and she has now helped to focus my work as a Minister. I am very grateful that I have had the privilege of working with her.

Dame Margaret Hodge: I forgot to thank you, Mr Robertson, for chairing the Committee and for showing such an interest in what we are doing. I also thank the Ministers and Members of all parties who have spoken and participated. I look forward to working further to get even more into the Bill.

Tom Tugendhat: If anybody thinks that I was trying to soft-soap the right hon. Lady in order to shut her up in future sittings, they do not know her very well. It would have not worked, and I have not tried it. All I have done is to pay credit to somebody who has definitely earned it. I also thank my fellow Minister and the Whips, who have got us through at lightning speed.

On the new clause, the powers in part 4 already increase the focus on victims. The compensation principles of the Serious Fraud Office, CPS, the National Crime Agency and others have committed law enforcement bodies to ensuring that compensation for economic crime is considered in every relevant case, including where there are overseas victims, so I believe that the Bill already focuses on many of the aspects that we have discussed. That said, we are coming to Report. As always, I will be listening, but I have yet to be convinced about the new clause, because I believe that it has largely been covered.

Stephen Kinnock: Has the Minister any thoughts on the international forums that have been set up—for example, the Russian Elites, Proxies, and Oligarchs Taskforce and the European Commission's Freeze and Seize Taskforce. What contribution are the UK Government planning to make to those processes?

Tom Tugendhat: I can speak directly to that, because I have recently had a meeting about it with other Governments and other jurisdictions. So far, many people have come up with ways to freeze assets. That is not a particular challenge; the UK does so very actively. Seizing and forfeiting in totality is a different challenge, because it depends on ownership and on many aspects of common law jurisdiction that we would not want to understate. I assure the hon. Gentleman honestly that I have not given up on this, because compensation for the victims in Ukraine is the very least that we should expect, as he correctly identified. Ukraine's inevitable victory, which is absolutely assured, leads us to start thinking about how we reconstruct that extraordinary country. It is clear that Russian state assets held abroad—some, sadly, are held in the UK—should go some way to contributing to that.

That said, how do we construct the legal arguments to ensure that that is possible? They need to be in keeping with British common law, for obvious reasons. We do not want a jurisdiction of forfeiture; we want a jurisdiction of law. There is more work to be done, therefore. We are working very closely with other common law jurisdictions, such as Australia, Canada and, indeed, the United States. There is an ongoing discussion, but it is not quite as straightforward as I would have hoped.

Stephen Kinnock: I have no further comments, and I beg to ask leave to withdraw the motion.

Clause, by leave, withdrawn.

New Schedule 1

Cryptoassets: terrorism

"*Part 1*

Amendments to the Anti-terrorism, Crime and Security Act 2001

1 Schedule 1 to the Anti-terrorism, Crime and Security Act 2001 (forfeiture of terrorist property) is amended as follows.

2 After Part 4B insert—

'Part 4BA

Seizure and detention of terrorist cryptoassets

Interpretation

10Z7A (1) In this Schedule—

"cryptoasset" means a cryptographically secured digital representation of value or contractual rights that uses a form of distributed ledger technology and can be transferred, stored or traded electronically;

"crypto wallet" means—

(a) software,

(b) hardware,

(c) a physical item, or

(d) any combination of the things mentioned in paragraphs (a) to (c),

which is used to store the cryptographic private key that allows cryptoassets to be accessed.

"terrorist cryptoasset" means a cryptoasset which—

(a) is within subsection (1)(a) or (b) of section 1, or

(b) is earmarked as terrorist property.

(2) The Secretary of State may by regulations made by statutory instrument amend the definitions of "cryptoasset" and "crypto wallet" in sub-paragraph (1).

(3) Regulations under sub-paragraph (2)—

(a) may make different provision for different purposes;

(b) may make consequential, supplementary, incidental, transitional, transitory or saving provision.

(4) A statutory instrument containing regulations under sub-paragraph (2) may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.

(5) In this Part—

"cryptoasset-related item" means an item of property that is, or that contains or gives access to information that is, likely to assist in the seizure under this Part of terrorist cryptoassets;

"senior officer" means—

(a) a senior police officer;

(b) an officer of Revenue and Customs of a rank designated by the Commissioners for His Majesty's Revenue and Customs as equivalent to that of a senior police officer;

(c) an immigration officer of a rank designated by the Secretary of State as equivalent to that of a senior police officer;

"senior police officer" means a police officer of at least the rank of superintendent.

Seizure of cryptoasset-related items

10Z7AA (1) An authorised officer may seize any item of property if the authorised officer has reasonable grounds for suspecting that the item is a cryptoasset-related item.

(2) If an authorised officer is lawfully on any premises, the officer may, for the purpose of—

(a) determining whether any property is a cryptoasset-related item, or

(b) enabling or facilitating the seizure under this Part of any terrorist cryptoasset,

require any information which is stored in any electronic form and accessible from the premises to be produced in a form in which it can be taken away and in which it is visible and legible, or from which it can readily be produced in a visible and legible form.

(3) But sub-paragraph (2) does not authorise an authorised officer to require a person to produce privileged information.

(4) In this paragraph "privileged information" means information which a person would be entitled to refuse to provide—

(a) in England and Wales and Northern Ireland, on grounds of legal professional privilege in proceedings in the High Court;

(b) in Scotland, on grounds of confidentiality of communications in proceedings in the Court of Session.

(5) Where an authorised officer has seized a cryptoasset-related item under sub-paragraph (1), the officer may use any information obtained from the item for the purpose of—

(a) identifying or gaining access to a crypto wallet, and

(b) by doing so, enabling or facilitating the seizure under this Part of any cryptoassets.

Initial detention of cryptoasset-related items

10Z7AB (1) Property seized under paragraph 10Z7AA may be detained for an initial period of 48 hours.

(2) Sub-paragraph (1) authorises the detention of property only for so long as an authorised officer continues to have reasonable grounds for suspicion in relation to that property as described in paragraph 10Z7AA(1).

(3) In calculating a period of 48 hours for the purposes of this paragraph, no account is to be taken of—

(a) any Saturday or Sunday,

(b) Christmas Day,

(c) Good Friday,

(d) any day that is a bank holiday under the Banking and Financial Dealings Act 1971 in the part of the United Kingdom within which the property is seized, or

(e) any day prescribed by virtue of section 8(2) of the Criminal Procedure (Scotland) Act 1995 as a court holiday in a sheriff court in the sheriff court district within which the property is seized.

Further detention of cryptoasset-related items

10Z7AC (1) The period for which property seized under paragraph 10Z7AA may be detained may be extended by an order made—

(a) in England and Wales or Northern Ireland, by a magistrates' court;

(b) in Scotland, by the sheriff.

(2) An order under sub-paragraph (1) may not authorise the detention of any property—

(a) beyond the end of the period of 6 months beginning with the date of the order, and

(b) in the case of any further order under this paragraph, beyond the end of the period of 2 years beginning with the date of the first order; but this is subject to sub-paragraph (4).

(3) A justice of the peace may also exercise the power of a magistrates' court to make the first order under sub-paragraph (1).

(4) The court or sheriff may make an order for the period of 2 years in sub-paragraph (2)(b) to be extended to a period of up to 3 years beginning with the date of the first order.

(5) An application to a magistrates' court, a justice of the peace or the sheriff to make the first order under sub-paragraph (1) extending a particular period of detention—

(a) may be made and heard without notice of the application or hearing having been given to any of the persons affected by the application or to the legal representatives of such a person, and

(b) may be heard and determined in private in the absence of persons so affected and of their legal representatives.

(6) An application for an order under sub-paragraph (1) or (4) may be made—

(a) in relation to England and Wales and Northern Ireland, by the Commissioners for His Majesty's Revenue and Customs or an authorised officer;

(b) in relation to Scotland, by a procurator fiscal.

(7) The court, sheriff or justice may make an order under sub-paragraph (1) if satisfied, in relation to the item of property to be further detained, that—

(a) there are reasonable grounds for suspecting that it is a cryptoasset-related item, and

(b) its continuing detention is justified.

(8) The court or sheriff may make an order under sub-paragraph (4) if satisfied that a request for assistance is outstanding in relation to the item of property to be further detained.

(9) A "request for assistance" in sub-paragraph (8) means a request for assistance in obtaining evidence (including information in any form or article) in connection with the property to be further detained, made —

(a) by a judicial authority in the United Kingdom under section 7 of the Crime (International Co-operation) Act 2003, or

(b) by an authorised officer, to an authority exercising equivalent functions in a foreign country.

(10) An order under sub-paragraph (1) must provide for notice to be given to persons affected by the order.

Seizure of cryptoassets

10Z7AD (1) An authorised officer may seize cryptoassets if the authorised officer has reasonable grounds for suspecting that the cryptoassets are terrorist cryptoassets.

(2) The circumstances in which a cryptoasset is "seized" for the purposes of sub-paragraph (1) include circumstances in which it is transferred into a crypto wallet controlled by the authorised officer.

Prior authorisation for detention of cryptoassets

10Z7AE (1) Where an order is made under paragraph 10Z7AC in respect of a cryptoasset-related item, the court, sheriff or justice making the order may, at the same time, make an order to authorise the detention of any cryptoassets that may be seized as a result of information obtained from that item.

(2) An application for an order under this paragraph may be made, by a person mentioned in paragraph 10Z7AC(6), at the same time as an application for an order under paragraph 10Z7AC is made by that person.

(3) The court, sheriff or justice may make an order under this paragraph if satisfied that there are reasonable grounds for suspecting that the cryptoassets that may be seized are terrorist cryptoassets.

(4) An order under this paragraph authorises detention of the cryptoassets for the same period of time as the order under paragraph 10Z7AC authorises detention in respect of the cryptoasset-related item to which those cryptoassets relate.

Initial detention of cryptoassets

10Z7AF (1) Cryptoassets seized under paragraph 10Z7AD may be detained for an initial period of 48 hours.

(2) Sub-paragraph (1) authorises the detention of cryptoassets only for so long as an authorised officer continues to have reasonable grounds for suspicion in relation to those cryptoassets as described in paragraph 10Z7AD(1).

(3) In calculating a period of 48 hours for the purposes of this paragraph, no account is to be taken of—

(a) any Saturday or Sunday,

(b) Christmas Day,

(c) Good Friday,

(d) any day that is a bank holiday under the Banking and Financial Dealings Act 1971 in the part of the United Kingdom within which the property is seized, or

(e) any day prescribed by virtue of section 8(2) of the Criminal Procedure (Scotland) Act 1995 as a court holiday in a sheriff court in the sheriff court district within which the property is seized.

(4) This paragraph is subject to paragraph 10Z7AE.

Further detention of cryptoassets

10Z7AG (1) The period for which cryptoassets seized under paragraph 10Z7AD may be detained may be extended by an order made—

(a) in England and Wales or Northern Ireland, by a magistrates' court;

(b) in Scotland, by the sheriff.

(2) An order under sub-paragraph (1) may not authorise the detention of any cryptoassets—

(a) beyond the end of the period of 6 months beginning with the date of the order, and

(b) in the case of any further order under this paragraph, beyond the end of the period of 2 years beginning with the date of the first order; but this is subject to sub-paragraph (4).

(3) A justice of the peace may also exercise the power of a magistrates' court to make the first order under sub-paragraph (1).

(4) The court or sheriff may make an order for the period of 2 years in sub-paragraph (2)(b) to be extended to a period of up to 3 years beginning with the date of the first order.

(5) An application to a magistrates' court, a justice of the peace or the sheriff to make the first order under sub-paragraph (1) extending a particular period of detention—

(a) may be made and heard without notice of the application or hearing having been given to any of the persons affected by the application or to the legal representatives of such a person, and

(b) may be heard and determined in private in the absence of persons so affected and of their legal representatives.

(6) An application for an order under sub-paragraph (1) or (4) may be made—

(a) in relation to England and Wales and Northern Ireland, by the Commissioners for His Majesty's Revenue and Customs or an authorised officer;

(b) in relation to Scotland, by a procurator fiscal.

(7) The court, sheriff or justice may make an order under sub-paragraph (1) if satisfied, in relation to the cryptoassets to be further detained, that condition 1, condition 2 or condition 3 is met.

(8) Condition 1 is that there are reasonable grounds for suspecting that the cryptoassets are intended to be used for the purposes of terrorism and that either—

(a) their continued detention is justified while their intended use is further investigated or consideration is given to bringing (in the United Kingdom or elsewhere) proceedings against any person for an offence with which the cryptoassets are connected, or

(b) proceedings against any person for an offence with which the cryptoassets are connected have been started and have not been concluded.

(9) Condition 2 is that there are reasonable grounds for suspecting that the cryptoassets consist of resources of an organisation which is a proscribed organisation and that either—

(a) their continued detention is justified while investigation is made into whether or not they consist of such resources or consideration is given to bringing (in the United Kingdom or elsewhere) proceedings against any person for an offence with which the cryptoassets are connected, or

(b) proceedings against any person for an offence with which the cryptoassets are connected have been started and have not been concluded.

(10) Condition 3 is that there are reasonable grounds for suspecting that the cryptoassets are property earmarked as terrorist property and that either—

(a) their continued detention is justified while their derivation is further investigated or consideration is given to bringing (in the United Kingdom or elsewhere) proceedings against any person for an offence with which the cryptoassets are connected, or

(b) proceedings against any person for an offence with which the cryptoassets are connected have been started and have not been concluded.

(11) The court or sheriff may make an order under sub-paragraph (4) if satisfied that a request for assistance is outstanding in relation to the cryptoassets to be further detained.

(12) A "request for assistance" in sub-paragraph (11) means a request for assistance in obtaining evidence (including information in any form or article) in connection with the property to be further detained, made —

(a) by a judicial authority in the United Kingdom under section 7 of the Crime (International Co-operation) Act 2003, or

(b) by an authorised officer, to an authority exercising equivalent functions in a foreign country.

(13) An order under sub-paragraph (1) must provide for notice to be given to persons affected by the order.

Safekeeping of cryptoasset-related items and cryptoassets

10Z7AH (1) An authorised officer must arrange for any item of property seized under paragraph 10Z7AA to be safely stored throughout the period during which it is detained under this Part.

(2) An authorised officer must arrange for any cryptoassets seized under paragraph 10Z7AD to be safely stored throughout the period during which they are detained under this Part.

Release of cryptoasset-related items and cryptoassets

10Z7AI (1) This paragraph applies while any cryptoasset or other item of property is detained under this Part.

(2) A magistrates' court or (in Scotland) the sheriff may, subject to sub-paragraph (9), direct the release of the whole or any part of the property if the following condition is met.

(3) The condition is that the court or sheriff is satisfied, on an application by the person from whom the property was seized, that the conditions for the detention of the property in this Part are no longer met in relation to the property to be released.

(4) A person within sub-paragraph (5) may, subject to sub-paragraph (9) and after notifying the magistrates' court, sheriff or justice under whose order property is being detained, release the whole or any part of the property if satisfied that the detention of the property to be released is no longer justified.

(5) The following persons are within this sub-paragraph—

(a) in relation to England and Wales and Northern Ireland, an authorised officer;

(b) in relation to Scotland, a procurator fiscal.

(6) If any cryptoasset-related item which has been released is not claimed within the period of a year beginning with the date on which it was released, an authorised officer may—

(a) retain the item and deal with it as they see fit,

(b) dispose of the item, or

(c) destroy the item.

(7) The powers in sub-paragraph (6) may be exercised only—

(a) where the authorised officer has taken reasonable steps to notify—

(i) the person from whom the item was seized, and

(ii) any other persons who the authorised officer has reasonable grounds to believe have an interest in the item,

that the item has been released, and

(b) with the approval of a senior officer.

(8) Any proceeds of a disposal of the item are to be paid—

(a) into the Consolidated Fund if—

(i) the item was directed to be released by a magistrates' court, or

(ii) a magistrates' court or justice was notified under sub-paragraph (4) of the release;

(b) into the Scottish Consolidated Fund if—

(i) the item was directed to be released by the sheriff, or

(ii) the sheriff was notified under sub-paragraph (4) of the release.

(9) If (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the property is connected, the property is not to be released under this paragraph (and so is to continue to be detained) until the proceedings are concluded.

Part 4BB

Terrorist cryptoassets: crypto wallet freezing orders

Interpretation

10Z7B (1) In this Part—

(a) "cryptoasset exchange provider" means a firm or sole practitioner who by way of business provides one or more of the following services, including where the firm or sole practitioner does so as creator or issuer of any of the cryptoassets involved—

(i) exchanging, or arranging or making arrangements with a view to the exchange of, cryptoassets for money or money for cryptoassets,

(ii) exchanging, or arranging or making arrangements with a view to the exchange of, one cryptoasset for another, or

(iii) operating a machine which utilises automated processes to exchange cryptoassets for money or money for cryptoassets;

(b) "custodian wallet provider" means a firm or sole practitioner who by way of business provides services to safeguard, or to safeguard and administer—

(i) cryptoassets on behalf of its customers, or

(ii) private cryptographic keys on behalf of its customers in order to hold, store and transfer cryptoassets;

(c) "cryptoasset service provider" includes cryptoasset exchange provider and custodian wallet provider.

(2) In the definition of "cryptoasset exchange provider" in sub-paragraph (1)—

(a) "cryptoasset" includes a right to, or interest in, a cryptoasset;

(b) "money" means—

(i) money in sterling,

(ii) money in any other currency, or

(iii) money in any other medium of exchange,

but does not include a cryptoasset.

(3) The Secretary of State may by regulations made by statutory instrument amend the definitions in sub-paragraphs (1) and (2).

(4) Regulations under sub-paragraph (3)—

(a) may make different provision for different purposes;

(b) may make consequential, supplementary, incidental, transitional, transitory or saving provision.

(5) A statutory instrument containing regulations under sub-paragraph (3) may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.

(6) For the purposes of this Part—

(a) a crypto wallet freezing order is an order that, subject to any exclusions (see paragraph 10Z7BD), prohibits each person by or for whom the crypto wallet to which the order applies is administered from—

(i) making withdrawals or payments from the crypto wallet, or

(ii) using the crypto wallet in any other way;

(b) a crypto wallet is administered by or for a person if the person is the person to whom services are being provided by a cryptoasset service provider in relation to that crypto wallet.

(7) In this Part—

"enforcement officer" means—

(a) a constable, or

(b) a counter-terrorism financial investigator;

"relevant court" means—

(a) in England and Wales and Northern Ireland, a magistrates' court, and

(b) in Scotland, the sheriff;

"senior officer" means a police officer of at least the rank of superintendent;

"UK-connected cryptoasset service provider" means a cryptoasset service provider which—

(a) is acting in the course of business carried on by it in the United Kingdom,

(b) 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,

(c) holds, in the United Kingdom, any data relating to the persons to whom it provides services, or

(d) meets the condition in sub-paragraph (8).

(8) The condition in this sub-paragraph is that—

(a) the cryptoasset service provider has its registered office, or if it does not have one, its head office in the United Kingdom, and

(b) the day-to-day management of the provider's business is the responsibility of that office or another establishment maintained by it in the United Kingdom.

Application for crypto wallet freezing order

10Z7BA (1) This paragraph applies if an enforcement officer has reasonable grounds for suspecting that cryptoassets held in a crypto wallet administered by a UK-connected cryptoasset service provider are terrorist cryptoassets.

(2) Where this paragraph applies the enforcement officer may apply to the relevant court for a crypto wallet freezing order in relation to the crypto wallet in which the cryptoassets are held.

(3) But—

(a) an enforcement officer may not apply for a crypto wallet freezing order unless the officer is a senior officer or is authorised to do so by a senior officer, and

(b) the senior officer must consult the Treasury before making the application for the order or (as the case may be) authorising the application to be made, unless in the circumstances it is not reasonably practicable to do so.

(4) An application for a crypto wallet freezing order may be made without notice if the circumstances of the case are such that notice of the application would prejudice the taking of any steps under this Schedule to forfeit cryptoassets that are terrorist cryptoassets.

(5) An application for a crypto wallet freezing order under this paragraph may be combined with an application for an account freezing order under paragraph 10Q where a single entity—

(a) is both a relevant financial institution for the purposes of paragraph 10Q and a cryptoasset service provider for the purposes of this Part, and

(b) operates or administers, for the same person, both an account holding money and a crypto wallet.

Making of crypto wallet freezing order

10Z7BB (1) This paragraph applies where an application for a crypto wallet freezing order is made under paragraph 10Z7BA in relation to a crypto wallet.

(2) The relevant court may make the order if satisfied that there are reasonable grounds for suspecting that some or all of the cryptoassets held in the crypto wallet are terrorist cryptoassets.

(3) A crypto wallet freezing order ceases to have effect at the end of the period specified in the order (which may be varied under paragraph 10Z7BC) unless it ceases to have effect at an earlier or later time in accordance with this Part or Part 4BC or 4BD.

(4) The period specified by the relevant court for the purposes of sub-paragraph (3) (whether when the order is first made or on a variation under paragraph 10Z7BC) may not exceed the period of 2 years, beginning with the day on which the crypto wallet freezing order is (or was) made; but this is subject to sub-paragraph (5).

(5) The relevant court may make an order for the period of 2 years in sub-paragraph (4) to be extended to a period of up to 3 years beginning with the day on which the crypto wallet freezing order is (or was) made.

(6) The relevant court may make an order under sub-paragraph (5) if satisfied that a request for assistance is outstanding in relation to some or all of the cryptoassets held in the crypto wallet.

(7) A "request for assistance" in sub-paragraph (6) means a request for assistance in obtaining evidence (including information in any form or article) in connection with some or all of the cryptoassets held in the crypto wallet, made—

(a) by a judicial authority in the United Kingdom under section 7 of the Crime (International Co-operation) Act 2003, or

(b) by an enforcement officer, to an authority exercising equivalent functions in a foreign country.

(8) A crypto wallet freezing order must provide for notice to be given to persons affected by the order.

Variation and setting aside of crypto wallet freezing order

10Z7BC (1) The relevant court may at any time vary or set aside a crypto wallet freezing order on an application made by—

(a) an enforcement officer, or

(b) any person affected by the order.

(2) But an enforcement officer may not make an application under sub-paragraph (1) unless the officer is a senior officer or is authorised to do so by a senior officer.

(3) Before varying or setting aside a crypto wallet freezing order the court must (as well as giving the parties to the proceedings an opportunity to be heard) give such an opportunity to any person who may be affected by its decision.

(4) In relation to Scotland, the references in this paragraph to setting aside an order are to be read as references to recalling it.

Exclusions

10Z7BD (1) The power to vary a crypto wallet freezing order includes (amongst other things) power to make exclusions from the prohibition on making withdrawals or payments from the crypto wallet to which the order applies.

(2) Exclusions from the prohibition may also be made when the order is made.

(3) An exclusion may (amongst other things) make provision for the purpose of enabling a person by or for whom the crypto wallet is administered—

(a) to meet the person's reasonable living expenses, or

(b) to carry on any trade, business, profession or occupation.

(4) An exclusion may be made subject to conditions.

(5) Where a magistrates' court exercises the power to make an exclusion for the purpose of enabling a person to meet legal expenses that the person has incurred, or may incur, in respect of proceedings under this Schedule, it must ensure that the exclusion—

(a) is limited to reasonable legal expenses that the person has reasonably incurred or that the person reasonably incurs,

(b) specifies the total amount that may be released for legal expenses in pursuance of the exclusion, and

(c) is made subject to the same conditions as would be the required conditions (see section 286A of the Proceeds of Crime Act 2002) if the order had been made under section 245A of that Act (in addition to any conditions imposed under sub-paragraph (4)).

(6) A magistrates' court, in deciding whether to make an exclusion for the purpose of enabling a person to meet legal expenses in respect of proceedings under this Schedule—

(a) must have regard to the desirability of the person being represented in any proceedings under this Schedule in which the person is a participant, and

(b) must disregard the possibility that legal representation of the person in any such proceedings might, were an exclusion not made—

(i) be made available under arrangements made for the purposes of Part 1 of the Legal Aid, Sentencing and Punishment of Offenders Act 2012, or

(ii) be funded by the Department of Justice in Northern Ireland.

(7) The sheriff's power to make exclusions may not be exercised for the purpose of enabling any person to meet any legal expenses in respect of proceedings under this Schedule.

(8) The power to make exclusions must, subject to sub-paragraph (6), be exercised with a view to ensuring, so far as practicable, that there is not undue prejudice to the taking of any steps under this Schedule to forfeit cryptoassets that are terrorist cryptoassets.

Restriction on proceedings and remedies

10Z7BE (1) If a court in which proceedings are pending in respect of a crypto wallet administered by a UK-connected cryptoasset service provider is satisfied that a crypto wallet freezing order has been applied for or made in respect of the crypto wallet, it may either stay the proceedings or allow them to continue on any terms it thinks fit.

(2) Before exercising the power conferred by sub-paragraph (1), the court must (as well as giving the parties to any of the proceedings concerned an opportunity to be heard) give such an opportunity to any person who may be affected by the court's decision.

(3) In relation to Scotland, the reference in sub-paragraph (1) to staying the proceedings is to be read as a reference to sisting the proceedings.

PART 4BC

Forfeiture of terrorist cryptoassets

Interpretation

10Z7C (1) In this Part—

"cryptoasset service provider" has the same meaning as in Part 4BB (see paragraph 10Z7B(1));

"crypto wallet freezing order" has the same meaning as in Part 4BB (see paragraph 10Z7B(6));

"senior officer" means—

(a) a senior police officer;

(b) an officer of Revenue and Customs of a rank designated by the Commissioners for His Majesty's Revenue and Customs as equivalent to that of a senior police officer;

(c) an immigration officer of a rank designated by the Secretary of State as equivalent to that of a senior police officer;

"senior police officer" means a police officer of at least the rank of superintendent.

(2) Paragraph 10Z7B(6)(b) (administration of crypto wallets) applies in relation to this Part as it applies in relation to Part 4BB.

Forfeiture

10Z7CA (1) This paragraph applies—

(a) while any cryptoassets are detained in pursuance of an order under paragraph 10Z7AE or 10Z7AG, or

(b) while a crypto wallet freezing order made under paragraph 10Z7BB has effect.

(2) An application for the forfeiture of some or all of the cryptoassets that are detained or held in the crypto wallet that is subject to the crypto wallet freezing order may be made—

(a) to a magistrates' court by the Commissioners for His Majesty's Revenue and Customs or an authorised officer, or

(b) to the sheriff by the Scottish Ministers.

(3) The court or sheriff may order the forfeiture of some or all of the cryptoassets if satisfied that the cryptoassets are terrorist cryptoassets.

(4) An order under sub-paragraph (3) made by a magistrates' court may provide for payment under paragraph 10Z7CJ of reasonable legal expenses that a person has reasonably incurred, or may reasonably incur, in respect of—

(a) the proceedings in which the order is made, or

(b) any related proceedings under this Part.

(5) A sum in respect of a relevant item of expenditure is not payable under paragraph 10Z7CJ in pursuance of provision under sub-paragraph (4) unless—

(a) the person who applied for the order under sub-paragraph (3) agrees to its payment, or

(b) the court has assessed the amount allowed in respect of that item and the sum is paid in respect of the assessed amount.

(6) For the purposes of sub-paragraph (5)—

(a) a "relevant item of expenditure" is an item of expenditure to which regulations under section 286B of the Proceeds of Crime Act 2002 would apply if the order under sub-paragraph (3) had instead been a recovery order made under section 266 of that Act;

(b) an amount is "allowed" in respect of a relevant item of expenditure if it would have been allowed by those regulations;

(c) if the person who applied for the order under sub-paragraph (3) was an authorised officer, that person may not agree to the payment of a sum unless the person is a senior officer or is authorised to do so by a senior officer.

(7) Sub-paragraph (3) ceases to apply on the transfer of an application made under this paragraph in accordance with paragraph 10Z7CE.

Forfeiture: supplementary

10Z7CB (1) Sub-paragraph (2) applies where an application is made under paragraph 10Z7CA for the forfeiture of any cryptoassets detained in pursuance of an order under paragraph 10Z7AE or 10Z7AG.

(2) The cryptoassets are to continue to be detained in pursuance of the order (and may not be released under any power conferred by this Schedule) until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded.

This is subject to Part 4BD (conversion to money)

(3) Where an application is made under paragraph 10Z7CA in relation to cryptoassets held in a crypto wallet that is subject to a crypto wallet freezing order—

(a) sub-paragraphs (4) and (5) apply, and

(b) the crypto wallet freezing order is to continue to have effect until the time referred to in sub-paragraph (4)(b) or (5).

(4) Where the cryptoassets are ordered to be forfeited under paragraph 10Z7CA(3) or 10Z7CE(3)—

(a) the cryptoasset service provider that administers the crypto wallet must transfer the cryptoassets into a crypto wallet nominated by an authorised officer, and

(b) immediately after the transfer has been made, the freezing order ceases to have effect.

(5) Where the application is determined or otherwise disposed of other than by the making of an order under paragraph 10Z7CA(3) or 10Z7CE(3), the crypto wallet freezing order ceases to have effect immediately after that determination or other disposal.

(6) Sub-paragraphs (4)(b) and (5) are subject to paragraph 10Z7CF and Part 4BD.

(7) The Secretary of State may by regulations made by statutory instrument amend this paragraph to make provision about the forfeiture of cryptoassets held in a crypto wallet that is subject to a crypto wallet freezing order.

(8) Regulations under sub-paragraph (7) may in particular make provision about—

(a) the process for the forfeiture of cryptoassets;

(b) the realisation of forfeited cryptoassets;

(c) the application of the proceeds of such realisation.

(9) Regulations under sub-paragraph (7) may—

(a) make different provision for different purposes;

(b) make consequential, supplementary, incidental, transitional, transitory or saving provision, including provision which makes consequential amendments to this Part.

(10) A statutory instrument containing regulations under sub-paragraph (7) may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament.

Associated and joint property

10Z7CC (1) Paragraphs 10Z7CD and 10Z7CE apply if—

(a) an application is made under paragraph 10Z7CA in respect of cryptoassets,

(b) the court or sheriff is satisfied that some or all of the cryptoassets are terrorist cryptoassets, and

(c) there exists property that is associated with the cryptoassets in relation to which the court or sheriff is satisfied as mentioned in paragraph (b).

(2) Paragraphs 10Z7CD and 10Z7CE also apply in England and Wales and Northern Ireland if—

(a) an application is made under paragraph 10Z7CA in respect of cryptoassets,

(b) the court is satisfied that some or all of the cryptoassets are earmarked as terrorist property, and

(c) the cryptoassets in relation to which the court is satisfied as mentioned in paragraph (b) belong to joint tenants and one of the tenants is an excepted joint owner.

(3) In this paragraph and paragraphs 10Z7CD and 10Z7CE, "associated property" means property of any of the following descriptions that is not itself the forfeitable property—

(a) any interest in the forfeitable property;

(b) any other interest in the property in which the forfeitable property subsists;

(c) if the forfeitable property is part of a larger property, but not a separate part, the remainder of that property.

References to property being associated with forfeitable property are to be read accordingly.

(4) In this paragraph and paragraphs 10Z7CD and 10Z7CE, the "forfeitable property" means the cryptoassets in relation to which the court or sheriff is satisfied as mentioned in sub-paragraph (1)(b) or (2)(b) (as the case may be).

(5) For the purposes of this paragraph and paragraphs 10Z7CD and 10Z7CE—

(a) an excepted joint owner is a joint tenant who obtained the property in circumstances in which it would not (as against them) be earmarked, and

(b) references to the excepted joint owner's share of property are to so much of the property as would have been theirs if the joint tenancy had been severed.

Agreements about associated and joint property

10Z7CD (1) Where—

(a) this paragraph applies, and

(b) the person who applied for the order under paragraph 10Z7CA (on the one hand) and the person who holds the associated property or who is the excepted joint owner (on the other hand) agree,

the magistrates' court or sheriff may, instead of making an order under paragraph 10Z7CA(3), make an order requiring the person who holds the associated property or who is the excepted joint owner to make a payment to a person identified in the order.

(2) The amount of the payment is (subject to sub-paragraph (3)) to be the amount which the persons referred to in sub-paragraph (1)(b) agree represents—

(a) in a case where this paragraph applies by virtue of paragraph 10Z7CC(1), the value of the forfeitable property;

(b) in a case where this paragraph applies by virtue of paragraph 10Z7CC(2), the value of the forfeitable property less the value of the excepted joint owner's share.

(3) The amount of the payment may be reduced if the person who applied for the order under paragraph 10Z7CA agrees that the other party to the agreement has suffered loss as a result of—

(a) the seizure of the forfeitable property under paragraph 10Z7AD and its subsequent detention, or

(b) the making of a crypto wallet freezing order under paragraph 10Z7BB.

(4) The reduction that is permissible by virtue of sub-paragraph (3) is such amount as the parties to the agreement agree is reasonable, having regard to the loss suffered and any other relevant circumstances.

(5) An order under sub-paragraph (1) may, so far as required for giving effect to the agreement, include provision for vesting, creating or extinguishing any interest in property.

(6) An order under sub-paragraph (1) made by a magistrates' court may provide for payment under sub-paragraph (11) of reasonable legal expenses that a person has reasonably incurred, or may reasonably incur, in respect of—

(a) the proceedings in which the order is made, or

(b) any related proceedings under this Part.

(7) A sum in respect of a relevant item of expenditure is not payable under sub-paragraph (11) in pursuance of provision under sub-paragraph (6) unless—

(a) the person who applied for the order under paragraph 10Z7CA agrees to its payment, or

(b) the court has assessed the amount allowed in respect of that item and the sum is paid in respect of the assessed amount.

(8) For the purposes of sub-paragraph (7)—

(a) a "relevant item of expenditure" is an item of expenditure to which regulations under section 286B of the Proceeds of Crime Act 2002 would apply if the order under sub-paragraph (1) had instead been a recovery order made under section 266 of that Act;

(b) an amount is "allowed" in respect of a relevant item of expenditure if it would have been allowed by those regulations.

(9) If there is more than one item of associated property or more than one excepted joint owner, the total amount to be paid under sub-paragraph (1), and the part of that amount which is to be provided by each person who holds any such associated property or who is an excepted joint owner, is to be agreed between both (or all) of them and the person who applied for the order under paragraph 10Z7CA.

(10) If the person who applied for the order under paragraph 10Z7CA was an authorised officer, that person may enter into an agreement for the purposes of any provision of this paragraph only if the person is a senior officer or is authorised to do so by a senior officer.

(11) An amount received under an order under sub-paragraph (1) must be applied as follows—

(a) first, it must be applied in making any payment of legal expenses which, after giving effect to sub-paragraph (7), are payable under this sub-paragraph in pursuance of provision under sub-paragraph (6);

(b) second, it must be applied in payment or reimbursement of any reasonable costs incurred in storing or insuring the forfeitable property and any associated property whilst detained under this Schedule;

(c) third, it must be paid—

(i) if the order was made by a magistrates' court, into the Consolidated Fund;

(ii) if the order was made by the sheriff, into the Scottish Consolidated Fund.

Associated and joint property: default of agreement

10Z7CE (1) Where this paragraph applies and there is no agreement under paragraph 10Z7CD, the magistrates' court or sheriff may transfer the application made under paragraph 10Z7CA to the appropriate court.

(2) The "appropriate court" is—

(a) the High Court, where the application under paragraph 10Z7CA was made to a magistrates' court;

(b) the Court of Session, where the application under paragraph 10Z7CA was made to the sheriff.

(3) Where (under sub-paragraph (1)) an application made under paragraph 10Z7CA is transferred to the appropriate court, the appropriate court may order the forfeiture of the property to which the application relates, or any part of that property, if satisfied that what is to be forfeited—

(a) is within subsection (1)(a) or (b) of section 1, or

(b) is property earmarked as terrorist property.

(4) An order under sub-paragraph (3) made by the High Court may include provision of the type that may be included in an order under paragraph 10Z7CA(3) made by a magistrates' court by virtue of paragraph 10Z7CA(4).

(5) If provision is included in an order of the High Court by virtue of sub-paragraph (4) of this paragraph, paragraph 10Z7CA(5) and (6) apply with the necessary modifications.

(6) The appropriate court may, as well as making an order under sub-paragraph (3), make an order—

(a) providing for the forfeiture of the associated property or (as the case may be) for the excepted joint owner's interest to be extinguished, or

(b) providing for the excepted joint owner's interest to be severed.

(7) Where (under sub-paragraph (1)) the magistrates' court or sheriff decides not to transfer an application made under paragraph 10Z7CA to the appropriate court, the magistrates' court or sheriff may, as well as making an order under paragraph 10Z7CA(3), make an order—

(a) providing for the forfeiture of the associated property or (as the case may be) for the excepted joint owner's interest to be extinguished, or

(b) providing for the excepted joint owner's interest to be severed.

(8) An order under sub-paragraph (6) or (7) may be made only if the appropriate court, the magistrates' court or the sheriff (as the case may be) thinks it just and equitable to do so.

(9) An order under sub-paragraph (6) or (7) must provide for the payment of an amount to the person who holds the associated property or who is an excepted joint owner.

(10) In making an order under sub-paragraph (6) or (7), and including provision in it by virtue of sub-paragraph (9), the appropriate court, the magistrates' court or the sheriff (as the case may be) must have regard to—

(a) the rights of any person who holds the associated property or who is an excepted joint owner and the value to that person of that property or (as the case may be) of that person's share (including any value that cannot be assessed in terms of money), and

(b) the interest of the person who applied for the order under paragraph 10Z7CA in realising the value of the forfeitable property.

(11) If the appropriate court, the magistrates' court or the sheriff (as the case may be) is satisfied that—

(a) the person who holds the associated property or who is an excepted joint owner has suffered loss as a result of—

(i) the seizure of the forfeitable property under paragraph 10Z7AD and its subsequent detention, or

(ii) the making of the crypto wallet freezing order under paragraph 10Z7BB, and

(b) the circumstances are exceptional,

an order under sub-paragraph (6) or (7) may require the payment of compensation to that person.

(12) The amount of compensation to be paid by virtue of sub-paragraph (11) is the amount the appropriate court, the magistrates' court or the sheriff (as the case may be) thinks reasonable, having regard to the loss suffered and any other relevant circumstances.

(13) Compensation to be paid by virtue of sub-paragraph (11) is to be paid in the same way that compensation is to be paid under paragraph 10Z7CM.

Continuation of crypto wallet freezing order pending appeal

10Z7CF (1) This paragraph applies where, on an application under paragraph 10Z7CA in relation to a crypto wallet to which a crypto wallet freezing order applies—

(a) the magistrates' court or sheriff decides—

(i) to make an order under paragraph 10Z7CA(3) in relation to some but not all of the cryptoassets to which the application related, or

(ii) not to make an order under paragraph 10Z7CA(3), or

(b) if the application is transferred in accordance with paragraph 10Z7CE(1), the High Court or Court of Session decides—

(i) to make an order under paragraph 10Z7CE(3) in relation to some but not all of the cryptoassets to which the application related, or

(ii) not to make an order under paragraph 10Z7CE(3).

(2) The person who made the application under paragraph 10Z7CA may apply without notice to the court or sheriff that made the decision referred to in sub-paragraph (1) for an order that the crypto wallet freezing order is to continue to have effect.

(3) Where the court or sheriff makes an order under sub-paragraph (2) the crypto wallet freezing order is to continue to have effect until—

(a) the end of the period of 48 hours starting with the making of the order under sub-paragraph (2), or

(b) if within that period of 48 hours an appeal is brought (whether under paragraph 10Z7CG or otherwise) against the decision referred to in sub-paragraph (1), the time when the appeal is determined or otherwise disposed of.

(4) Sub-paragraph (3) of paragraph 10Z7AF applies for the purposes of sub-paragraph (3) as it applies for the purposes of that paragraph.

Paragraphs 10Z7CA to 10Z7CE: appeals

10Z7CG (1) Any party to proceedings for an order for the forfeiture of cryptoassets under paragraph 10Z7CA may appeal against—

(a) the making of an order under paragraph 10Z7CA;

(b) the making of an order under paragraph 10Z7CE(7);

(c) a decision not to make an order under paragraph 10Z7CA unless the reason that no order was made is that an order was instead made under paragraph 10Z7CD;

(d) a decision not to make an order under paragraph 10Z7CE(7).

Paragraphs (c) and (d) do not apply if the application for the order under paragraph 10Z7CA was transferred in accordance with paragraph 10Z7CE(1).

(2) Where an order under paragraph 10Z7CD is made by a magistrates' court, any party to the proceedings for the order (including any party to the proceedings under paragraph 10Z7CA that preceded the making of the order) may appeal against a decision to include, or not to include, provision in the order under paragraph 10Z7CD(6).

(3) An appeal under this paragraph lies—

(a) in relation to England and Wales, to the Crown Court;

(b) in relation to Scotland, to the Sheriff Appeal Court;

(c) in relation to Northern Ireland, to a county court.

(4) An appeal under this paragraph must be made before the end of the period of 30 days starting with the day on which the court or sheriff makes the order or decision.

(5) Sub-paragraph (4) is subject to paragraph 10Z7CH.

(6) The court hearing the appeal may make any order it thinks appropriate.

(7) If the court upholds an appeal against an order forfeiting any cryptoasset or other item of property, it may, subject to sub-paragraph (8), order the release of the whole or any part of the property.

(8) If (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the property is connected, the property is not to be released under this paragraph (and so is to continue to be detained) until the proceedings are concluded.

Extended time for appealing in certain cases where deproscription order made

10Z7CH (1) This paragraph applies where—

(a) a successful application for an order under paragraph 10Z7CA relies (wholly or partly) on the fact that an organisation is proscribed,

(b) an application under section 4 of the Terrorism Act 2000 for a deproscription order in respect of the organisation is refused by the Secretary of State,

(c) the property forfeited by the order under paragraph 10Z7CA was seized under this Schedule on or after the date of the refusal of that application,

(d) an appeal against that refusal is allowed under section 5 of the Terrorism Act 2000,

(e) a deproscription order is made accordingly, and

(f) if the order is made in reliance on section 123(5) of the Terrorism Act 2000, a resolution is passed by each House of Parliament under section 123(5)(b) of that Act.

(2) Where this paragraph applies, an appeal under paragraph 10Z7CG against the making of an order under paragraph 10Z7CA, and against the making (in addition) of any order under paragraph 10Z7CE(7), may be brought at any time before the end of the period of 30 days beginning with the date on which the deproscription order comes into force.

(3) In this paragraph a "deproscription order" means an order under section 3(3)(b) or (8) of the Terrorism Act 2000.

Realisation or destruction of forfeited cryptoassets etc

10Z7CI (1) This paragraph applies where any cryptoasset or other item of property is forfeited under this Part.

(2) An authorised officer must—

(a) realise the property, or

(b) make arrangements for its realisation.

This is subject to sub-paragraphs (3) to (5).

(3) The property is not to be realised—

(a) before the end of the period within which an appeal may be made (whether under paragraph 10Z7CG or otherwise), or

(b) if an appeal is made within that period, before the appeal is determined or otherwise disposed of.

(4) The realisation of property under sub-paragraph (2) must be carried out, so far as practicable, in the manner best calculated to maximise the amount obtained for the property.

(5) Where an authorised officer is satisfied that—

(a) it is not reasonably practicable to realise any cryptoasset, or

(b) there are reasonable grounds to believe that the realisation of any cryptoasset would be contrary to the public interest,

the authorised officer may destroy the cryptoasset.

(6) But—

(a) the authorised officer may destroy the cryptoasset only if the officer is a senior officer or is authorised to do so by a senior officer, and

(b) the cryptoasset is not to be destroyed—

(i) before the end of the period within which an appeal may be made (whether under paragraph 10Z7CG or otherwise), or

(ii) if an appeal is made within that period, before the appeal is determined or otherwise disposed of.

(7) The question of whether the realisation of the cryptoasset would be contrary to the public interest is to be determined with particular reference to how likely it is that the entry of the cryptoasset into general circulation would facilitate criminal conduct by any person.

Proceeds of realisation

10Z7CJ (1) This paragraph applies where any cryptoasset or other item of property is realised under paragraph 10Z7CI.

(2) The proceeds of the realisation must be applied as follows—

(a) first, they must be applied in making any payment required to be made by virtue of paragraph 10Z7CE(9);

(b) second, they must be applied in making any payment of legal expenses which, after giving effect to paragraph 10Z7CA(5) (including as applied by paragraph 10Z7CE(5)), are payable under this sub-paragraph in pursuance of provision under paragraph 10Z7CA(4) or, as the case may be, 10Z7CE(4);

(c) third, they must be applied in payment or reimbursement of any reasonable costs incurred in storing or insuring the property whilst detained under this Schedule and in realising the property;

(d) fourth, they must be paid—

(i) if the property was forfeited by a magistrates' court or the High Court, into the Consolidated Fund;

(ii) if the property was forfeited by the sheriff or the Court of Session, into the Scottish Consolidated Fund.

(3) If what is realised under paragraph 10Z7CI represents part only of an item of property, the reference in sub-paragraph (2)(c) to costs incurred in storing or insuring the property is to be read as a reference to costs incurred in storing or insuring the whole of the property.

Victims etc: detained cryptoassets

10Z7CK (1) A person who claims that any cryptoassets detained under this Schedule belong to the person may apply for some or all of the cryptoassets to be released.

(2) An application under sub-paragraph (1) is to be made—

(a) in England and Wales or Northern Ireland, to a magistrates' court;

(b) in Scotland, to the sheriff.

(3) The application may be made in the course of proceedings under paragraph 10Z7AG or 10Z7CA or at any other time.

(4) The court or sheriff may, subject to sub-paragraph (8), order the cryptoassets to which the application relates to be released to the applicant if it appears to the court or sheriff that—

(a) the applicant was deprived of the cryptoassets to which the application relates, or of property which they represent, by criminal conduct,

(b) the cryptoassets the applicant was deprived of were not, immediately before the applicant was deprived of them, property obtained by or in return for criminal conduct and nor did they then represent such property, and

(c) the cryptoassets belong to the applicant.

(5) If sub-paragraph (6) applies, the court or sheriff may, subject to sub-paragraph (8), order the cryptoassets to which the application relates to be released to the applicant or to the person from whom they were seized.

(6) This sub-paragraph applies where—

(a) the applicant is not the person from whom the cryptoassets to which the application relates were seized,

(b) it appears to the court or sheriff that those cryptoassets belong to the applicant,

(c) the court or sheriff is satisfied that the release condition is met in relation to those cryptoassets, and

(d) no objection to the making of an order under sub-paragraph (5) has been made by the person from whom those cryptoassets were seized.

(7) The release condition is met—

(a) if the conditions in Part 4BA for the detention of the cryptoassets are no longer met, or

(b) in relation to cryptoassets which are subject to an application for forfeiture under paragraph 10Z7CA, if the court or sheriff decides not to make an order under that paragraph in relation to the cryptoassets.

(8) If (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the cryptoassets are connected, the cryptoassets are not to be released under this paragraph (and so are to continue to be detained) until the proceedings are concluded.

Victims etc: crypto wallet freezing orders

10Z7CL (1) A person who claims that any cryptoassets held in a crypto wallet in respect of which a crypto wallet freezing order has been made belong to the person may apply for some or all of the cryptoassets to be released.

(2) An application under sub-paragraph (1) is to be made—

(a) in England and Wales or Northern Ireland, to a magistrates' court;

(b) in Scotland, to the sheriff.

(3) The application may be made in the course of proceedings under paragraph 10Z7BB or 10Z7CA or at any other time.

(4) The court or sheriff may, subject to sub-paragraph (8), order the cryptoassets to which the application relates to be released to the applicant if it appears to the court or sheriff that—

(a) the applicant was deprived of the cryptoassets to which the application relates, or of property which they represent, by criminal conduct,

(b) the cryptoassets the applicant was deprived of were not, immediately before the applicant was deprived of them, property obtained by or in return for criminal conduct and nor did they then represent such property, and

(c) the cryptoassets belong to the applicant.

(5) If sub-paragraph (6) applies, the court or sheriff may, subject to sub-paragraph (8), order the cryptoassets to which the application relates to be released to the applicant.

(6) This sub-paragraph applies where—

(a) the applicant is not the person from whom the cryptoassets to which the application relates were seized,

(b) it appears to the court or sheriff that those cryptoassets belong to the applicant,

(c) the court or sheriff is satisfied that the release condition is met in relation to those cryptoassets, and

(d) no objection to the making of an order under sub-paragraph (5) has been made by the person from whom those cryptoassets were seized.

(7) The release condition is met—

(a) if the conditions for the making of the crypto wallet freezing order are no longer met in relation to the cryptoassets to which the application relates, or

(b) in relation to cryptoassets held in a crypto wallet subject to a crypto wallet freezing order which are subject to an application for forfeiture under paragraph 10Z7CA, if the court or sheriff decides not to make an order under that paragraph in relation to the cryptoassets.

(8) Cryptoassets are not to be released under this paragraph—

(a) if an application for their forfeiture under paragraph 10Z7CA is made, until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded;

(b) if (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the cryptoassets are connected, until the proceedings are concluded.

(9) In relation to cryptoassets held in a crypto wallet that is subject to a crypto wallet freezing order, references in this paragraph to a person from whom cryptoassets were seized include a reference to a person by or for whom the crypto wallet was administered immediately before the crypto wallet freezing order was made.

Compensation

10Z7CM (1) This paragraph applies if no order is made under paragraph 10Z7CA, 10Z7CD or 10Z7CE in respect of cryptoassets detained under this Schedule or held in a crypto wallet that is subject to a crypto wallet freezing order under paragraph 10Z7BB.

(2) Where this paragraph applies, the following may make an application to the relevant court for compensation—

(a) a person to whom the cryptoassets belong or from whom they were seized;

(b) a person by or for whom a crypto wallet to which the crypto wallet freezing order applies is administered.

(3) If the relevant court is satisfied that the applicant has suffered loss as a result of the detention of the cryptoassets or the making of the crypto wallet freezing order and that the circumstances are exceptional, the relevant court may order compensation to be paid to the applicant.

(4) The amount of compensation to be paid is the amount the relevant court thinks reasonable, having regard to the loss suffered and any other relevant circumstances.

(5) If the cryptoassets were seized, or the crypto wallet freezing order was applied for, by an officer of Revenue and Customs, the compensation is to be paid by the Commissioners for His Majesty's Revenue and Customs.

(6) If the cryptoassets were seized, or the crypto wallet freezing order was applied for, by a constable, the compensation is to be paid as follows—

(a) in the case of a constable of a police force in England and Wales, it is to be paid out of the police fund from which the expenses of the police force are met;

(b) in the case of a constable of the Police Service of Scotland, it is to be paid by the Scottish Police Authority;

(c) in the case of a police officer within the meaning of the Police (Northern Ireland) Act 2000, it is to be paid out of money provided by the Chief Constable of the Police Service of Northern Ireland.

(7) If the cryptoassets were seized, or the crypto wallet freezing order was applied for, by a counter-terrorism financial investigator, the compensation is to be paid as follows—

(a) in the case of a counter-terrorism financial investigator who was—

(i) a member of the civilian staff of a police force (including the metropolitan police force), within the meaning of Part 1 of the Police Reform and Social Responsibility Act 2011, or

(ii) a member of staff of the City of London police force,

it is to be paid out of the police fund from which the expenses of the police force are met;

(b) in the case of a counter-terrorism financial investigator who was a member of staff of the Police Service of Northern Ireland, it is to be paid out of money provided by the Chief Constable of the Police Service of Northern Ireland.

(8) If the cryptoassets were seized, or the crypto wallet freezing order was applied for, by an immigration officer, the compensation is to be paid by the Secretary of State.

(9) If an order under paragraph 10Z7BB, 10Z7CA, 10Z7CD or 10Z7CE is made in respect of some of the cryptoassets detained or held, this paragraph has effect in relation to the remainder.

(10) This paragraph does not apply if the relevant court makes an order under paragraph 10Z7CK or 10Z7CL.

(11) In this paragraph "relevant court" means—

(a) in England and Wales and Northern Ireland, a magistrates' court;

(b) in Scotland, the sheriff.

Part 4BD

Conversion of cryptoassets

Interpretation

10Z7D (1) In this Part—

"converted cryptoassets" is to be read in accordance with paragraphs 10Z7DC and 10Z7DD;

"crypto wallet freezing order" has the same meaning as in Part 4BB (see paragraph 10Z7B(6));

"relevant court" means—

(a) in England and Wales and Northern Ireland, a magistrates' court;

(b) in Scotland, the sheriff;

"relevant financial institution" has the same meaning as in Part 4B (see paragraph 10Q);

"UK-connected cryptoasset service provider" has the same meaning as in Part 4BB (see paragraph 10Z7B(7)).

(2) Paragraph 10Z7B(6)(b) (administration of crypto wallets) applies in relation to this Part as it applies in relation to Part 4BB.

(3) In this Part references to the conversion of cryptoassets into money are references to the conversion of cryptoassets into—

(a) cash, or

(b) money held in an account maintained with a relevant financial institution.

(4) For the purposes of Parts 2 to 4, converted cryptoassets detained under this Part are not to be treated as cash detained under this Schedule.

Detained cryptoassets: conversion

10Z7DA (1) Sub-paragraph (2) applies while any cryptoassets are detained in pursuance of an order under paragraph 10Z7AE or 10Z7AG (including where cryptoassets are subject to forfeiture proceedings).

(2) A person within sub-paragraph (3) may apply to the relevant court for an order requiring all of the cryptoassets detained pursuant to the order to be converted into money.

(3) The following persons are within this sub-paragraph—

(a) an authorised officer;

(b) a person from whom the cryptoassets were seized.

(4) In deciding whether to make an order under this paragraph, the court must have regard to whether the cryptoassets (as a whole) are likely to suffer a significant loss in value during the period before they are released or forfeited (including the period during which an appeal against an order for forfeiture may be made).

(5) Before making an order under this paragraph the court must give an opportunity to be heard to—

(a) the parties to the proceedings, and

(b) any other person who may be affected by its decision.

(6) As soon as practicable after an order is made under this paragraph, an authorised officer must convert the cryptoassets, or arrange for the cryptoassets to be converted, into money.

(7) The conversion of cryptoassets under sub-paragraph (6) must be carried out, so far as practicable, in the manner best calculated to maximise the amount of money obtained for the cryptoassets.

(8) At the first opportunity after the cryptoassets are converted, the authorised officer must arrange for the amount of money obtained for the cryptoassets to be paid into an interest-bearing account and held there.

(9) Interest accruing on the amount is to be added to it on its forfeiture or release.

(10) Where cryptoassets are converted into money in accordance with an order made under this paragraph—

(a) the cryptoassets are no longer to be treated as being detained in pursuance of an order under paragraph 10Z7AE or 10Z7AG, and

(b) any application made under paragraph 10Z7CA(2) in relation to the cryptoassets which has not yet been determined or otherwise disposed of (including under paragraph 10Z7CD or 10Z7CE) is to be treated as if it were an application made under paragraph 10Z7DG(2) in relation to the converted cryptoassets.

(11) An order made under this paragraph must provide for notice to be given to persons affected by the order.

(12) No appeal may be made against an order made under this paragraph.

Frozen crypto wallet: conversion

10Z7DB (1) This paragraph applies while a crypto wallet freezing order under paragraph 10Z7BB has effect (including where cryptoassets held in a crypto wallet that is subject to a crypto wallet freezing order are subject to forfeiture proceedings).

(2) A person within sub-paragraph (3) may apply to the relevant court for an order requiring all of the cryptoassets held in the crypto wallet to be converted into money.

(3) The following persons are within this sub-paragraph—

(a) an authorised officer;

(b) a person by or for whom the crypto wallet is administered.

(4) In deciding whether to make an order under this paragraph, the court must have regard to whether the cryptoassets (as a whole) are likely to suffer a significant loss in value during the period before—

(a) the crypto wallet freezing order ceases to have effect, or

(b) the cryptoassets are forfeited (including the period during which an appeal against an order for forfeiture may be made).

(5) Before making an order under this paragraph the court must give an opportunity to be heard to—

(a) the parties to the proceedings, and

(b) any other person who may be affected by its decision.

(6) As soon as practicable after an order is made under this paragraph, the UK-connected cryptoasset service provider that administers the crypto wallet must convert the cryptoassets, or arrange for the cryptoassets to be converted, into money.

(7) The conversion of cryptoassets under sub-paragraph (6) must be carried out, so far as practicable, in the manner best calculated to maximise the amount of money obtained for the cryptoassets.

(8) At the first opportunity after the cryptoassets are converted, the UK-connected cryptoasset service provider must arrange for the amount of money obtained for the cryptoassets to be paid into an interest-bearing account nominated by an authorised officer and held there.

(9) But—

(a) the UK-connected cryptoasset service provider may deduct any reasonable expenses incurred by the provider in connection with the conversion of the cryptoassets, and

(b) the amount to be treated as the proceeds of the conversion of the cryptoassets is to be reduced accordingly.

(10) Interest accruing on the amount obtained for the cryptoassets is to be added to it on its forfeiture or release.

(11) Where cryptoassets are converted in accordance with an order made under this paragraph—

(a) the crypto wallet freezing order ceases to have effect,

(b) any application made under paragraph 10Z7CA(2) in relation to the cryptoassets which has not yet been determined or otherwise disposed of (including under paragraph 10Z7CD or 10Z7CE) is to be treated as if it were an application made under paragraph 10Z7DG(2) in relation to the converted cryptoassets, and

(c) any application made under paragraph 10Z7CF(2) in relation to the crypto wallet which has not yet been determined or otherwise disposed of may not be proceeded with.

(12) An order made under this paragraph must provide for notice to be given to persons affected by the order.

(13) No appeal may be made against an order made under this paragraph.

Conversion: existing forfeiture proceedings

10Z7DC (1) Where—

(a) cryptoassets are forfeited under paragraph 10Z7CA or 10Z7CE, and

(b) before the cryptoassets are realised or destroyed in accordance with paragraph 10Z7CI, an order is made under paragraph 10Z7DA requiring the cryptoassets to be converted into money,

paragraph 10Z7DJ(1) applies in relation to the converted cryptoassets as if they had been detained under paragraph 10Z7DD and forfeited under paragraph 10Z7DG (and accordingly paragraph 10Z7CI ceases to apply).

(2) Where—

(a) cryptoassets are forfeited under paragraph 10Z7CA or 10Z7CE, and

(b) before the cryptoassets are realised or destroyed in accordance with paragraph 10Z7CI, an order is made under paragraph 10Z7DB requiring the cryptoassets to be converted into money,

paragraph 10Z7DJ(2) applies in relation to the converted cryptoassets as if they had been detained under paragraph 10Z7DE and forfeited under paragraph 10Z7DG (and accordingly paragraph 10Z7CI ceases to apply).

(3) Where—

(a) an appeal may be made under paragraph 10Z7CG(1) or (2) in relation to the determination of an application under paragraph 10Z7CA(2) for the forfeiture of cryptoassets (including where paragraph 10Z7CD or 10Z7CE applies), and

(b) an order is made under paragraph 10Z7DA or 10Z7DB requiring the cryptoassets to be converted into money,

the appeal may instead be made under paragraph 10Z7DH (within the time allowed by paragraph 10Z7CG(4)) as if it were an appeal against the determination of an application under paragraph 10Z7DG.

(4) Where—

(a) an appeal is made under paragraph 10Z7CG(1) or (2) in relation to the determination of an application under paragraph 10Z7CA(2) for the forfeiture of cryptoassets (including where paragraph 10Z7CD or 10Z7CE applies), and

(b) before the appeal is determined or otherwise disposed of, an order is made under paragraph 10Z7DA or 10Z7DB requiring the cryptoassets to be converted into money,

the appeal is to be treated as if it had been made under paragraph 10Z7DH(1) in relation to the determination of an application under paragraph 10Z7DG for the forfeiture of the converted cryptoassets.

Detained cryptoassets: detention of proceeds of conversion

10Z7DD (1) This paragraph applies where cryptoassets are converted into money in accordance with an order under paragraph 10Z7DA.

(2) The proceeds of the conversion (the "converted cryptoassets") may be detained initially until the end of the period that the cryptoassets could, immediately before the conversion, have been detained under Part 4BA (ignoring the possibility of any extension of that period).

(3) The period for which the converted cryptoassets may be detained may be extended by an order made by the relevant court.

(4) An order under sub-paragraph (3) may not authorise the detention of the converted cryptoassets beyond the end of the period of 2 years beginning with the relevant date; but this is subject to sub-paragraph (5).

(5) The relevant court may make an order for the period of 2 years in sub-paragraph (4) to be extended to a period of up to 3 years beginning with the relevant date.

(6) In sub-paragraphs (4) and (5) "the relevant date" means the date on which the first order under paragraph 10Z7AE or 10Z7AG (as the case may be) was made in relation to the cryptoassets.

(7) An application for an order under sub-paragraph (3) or (5) may be made—

(a) in relation to England and Wales and Northern Ireland, by the Commissioners for His Majesty's Revenue and Customs or an authorised officer;

(b) in relation to Scotland, by a procurator fiscal.

(8) The relevant court may make an order under sub-paragraph (3) only if satisfied that there are reasonable grounds for suspecting that the converted cryptoassets to be further detained—

(a) are within subsection (1)(a) or (b) of section 1, or

(b) are property earmarked as terrorist property.

(9) The relevant court may make an order under sub-paragraph (5) only if satisfied that a request for assistance is outstanding in relation to the cryptoassets mentioned in sub-paragraph (1).

(10) A "request for assistance" in sub-paragraph (9) means a request for assistance in obtaining evidence (including information in any form or article) in connection with the cryptoassets, made—

(a) by a judicial authority in the United Kingdom under section 7 of the Crime (International Co-operation) Act 2003, or

(b) by an authorised officer, to an authority exercising equivalent functions in a foreign country.

Frozen crypto wallets: detention of proceeds of conversion

10Z7DE (1) This paragraph applies where cryptoassets held in a crypto wallet subject to a crypto wallet freezing order are converted into money in accordance with an order under paragraph 10Z7DB.

(2) The proceeds of the conversion (the "converted cryptoassets") may be detained initially until the end of the period that the crypto wallet freezing order was, immediately before the conversion, due to have effect under Part 4BB (ignoring the possibility of any extension of that period).

(3) The period for which the converted cryptoassets may be detained may be extended by an order made by the relevant court.

(4) An order under sub-paragraph (3) may not authorise the detention of the converted cryptoassets beyond the end of the period of 2 years beginning with the day on which the crypto wallet freezing order was made; but this is subject to sub-paragraph (5).

(5) The relevant court may make an order for the period of 2 years in sub-paragraph (4) to be extended to a period of up to 3 years beginning with the day on which the crypto wallet freezing order was made.

(6) An application for an order under sub-paragraph (3) or (5) may be made—

(a) in relation to England and Wales and Northern Ireland, by the Commissioners for His Majesty's Revenue and Customs or an authorised officer;

(b) in relation to Scotland, by a procurator fiscal.

(7) The relevant court may make an order under sub-paragraph (3) only if satisfied that there are reasonable grounds for suspecting that the converted cryptoassets to be further detained—

(a) are within subsection (1)(a) or (b) of section 1, or

(b) are property earmarked as terrorist property.

(8) The relevant court may make an order under sub-paragraph (5) only if satisfied that a request for assistance is outstanding in relation to the cryptoassets mentioned in sub-paragraph (1).

(9) A "request for assistance" in sub-paragraph (8) means a request for assistance in obtaining evidence (including information in any form or article) in connection with the cryptoassets, made—

(a) by a judicial authority in the United Kingdom under section 7 of the Crime (International Co-operation) Act 2003, or

(b) by an authorised officer, to an authority exercising equivalent functions in a foreign country.

Release of detained converted cryptoassets

10Z7DF (1) This paragraph applies while any converted cryptoassets are detained under paragraph 10Z7DD or 10Z7DE.

(2) The relevant court may, subject to sub-paragraph (7), direct the release of the whole or any part of the converted cryptoassets if the following condition is met.

(3) The condition is that, on an application by the relevant person, the court is not satisfied that there are reasonable grounds for suspecting that the converted cryptoassets to be released—

(a) are within subsection (1)(a) or (b) of section 1, or

(b) are property earmarked as terrorist property.

(4) In sub-paragraph (3) "the relevant person" means—

(a) in the case of converted cryptoassets detained under paragraph 10Z7DD, the person from whom the cryptoassets mentioned in sub-paragraph (1) of that paragraph were seized, and

(b) in the case of converted cryptoassets detained under paragraph 10Z7DE, any person affected by the crypto wallet freezing order mentioned in sub-paragraph (1) of that paragraph.

(5) A person within sub-paragraph (6) may, subject to sub-paragraph (7) and after notifying the magistrates' court or sheriff under whose order converted cryptoassets are being detained, release the whole or any part of the converted cryptoassets if satisfied that the detention is no longer justified.

(6) The following persons are within this sub-paragraph—

(a) in relation to England and Wales or Northern Ireland, an authorised officer;

(b) in relation to Scotland, a procurator fiscal.

(7) Converted cryptoassets are not to be released under this paragraph (and so are to continue to be detained)—

(a) if an application for their forfeiture under paragraph 10Z7DG is made, until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded;

(b) if (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the converted cryptoassets are connected, until the proceedings are concluded.

Forfeiture

10Z7DG (1) This paragraph applies while any converted cryptoassets are detained under paragraph 10Z7DD or 10Z7DE.

(2) An application for the forfeiture of some or all of the converted cryptoassets may be made—

(a) to a magistrates' court by, the Commissioners for His Majesty's Revenue and Customs or an authorised officer;

(b) to the sheriff, by the Scottish Ministers.

(3) The court or sheriff may order the forfeiture of some or all of the converted cryptoassets if satisfied that the converted cryptoassets to be forfeited—

(a) are within subsection (1)(a) or (b) of section 1, or

(b) are property earmarked as terrorist property.

(4) But in the case of property which belongs to joint tenants, one of whom is an excepted joint owner, the order may not apply to so much of it as the court thinks is attributable to the excepted joint owner's share.

(5) Where an application for forfeiture is made under this paragraph, the converted cryptoassets are to continue to be detained under paragraph 10Z7DD or 10Z7DE (and may not be released under any power conferred by this Part) until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded.

(6) For the purposes of this paragraph—

(a) an excepted joint owner is a joint tenant who obtained the property in circumstances in which it would not (as against them) be earmarked, and

(b) references to the excepted joint owner's share of property are to so much of the property as would have been theirs if the joint tenancy had been severed.

Forfeiture: appeals

10Z7DH (1) Any party to proceedings for an order for the forfeiture of converted cryptoassets under paragraph 10Z7DG who is aggrieved by an order under that paragraph or by the decision of the court not to make such an order may appeal—

(a) from an order or decision of a magistrates' court in England and Wales, to the Crown Court;

(b) from an order or decision of the sheriff, to the Sheriff Appeal Court;

(c) from an order or decision of a magistrates' court in Northern Ireland, to a county court.

(2) An appeal under sub-paragraph (1) must be made before the end of the period of 30 days starting with the day on which the court makes the order or decision.

(3) The court hearing the appeal may make any order it thinks appropriate.

(4) If the court upholds an appeal against an order forfeiting the converted cryptoassets, it may, subject to sub-paragraph (5), order the release of some or all of the converted cryptoassets.

(5) If (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the converted cryptoassets are connected, the converted cryptoassets are not to be released under this paragraph (and so are to continue to be detained) until the proceedings are concluded.

Extended time for appealing in certain cases where deproscription order made

10Z7DI (1) This paragraph applies where—

(a) a successful application for an order under paragraph 10Z7DG relies (wholly or partly) on the fact that an organisation is proscribed,

(b) an application under section 4 of the Terrorism Act 2000 for a deproscription order in respect of the organisation is refused by the Secretary of State,

(c) the converted cryptoassets forfeited by the order under paragraph 10Z7DG were converted from cryptoassets which were seized under this Schedule on or after the date of the refusal of that application,

(d) an appeal against that refusal is allowed under section 5 of the Terrorism Act 2000,

(e) a deproscription order is made accordingly, and

(f) if the order is made in reliance on section 123(5) of the Terrorism Act 2000, a resolution is passed by each House of Parliament under section 123(5)(b) of that Act.

(2) Where this paragraph applies, an appeal under paragraph 10Z7DH against the making of an order under paragraph 10Z7DG may be brought at any time before the end of the period of 30 days beginning with the date on which the deproscription order comes into force.

(3) In this paragraph a "deproscription order" means an order under section 3(3)(b) or (8) of the Terrorism Act 2000.

Application of forfeited converted cryptoassets

10Z7DJ (1) Converted cryptoassets detained under paragraph 10Z7DD and forfeited under paragraph 10Z7DG, and any accrued interest on them, must be applied as follows—

(a) first, they must be applied in making any payment of reasonable expenses incurred by an authorised officer in connection with the safe storage of the cryptoassets mentioned in paragraph 10Z7DD(1) during the period the cryptoassets were detained under Part 4BA;

(b) second, they must be applied in making any payment of reasonable expenses incurred by an authorised officer in connection with the conversion of those cryptoassets under paragraph 10Z7DA(6);

(c) third, they must be applied in making any payment of reasonable expenses incurred by an authorised officer in connection with the detention of the converted cryptoassets under this Part;

(d) fourth, they must be paid—

(i) if forfeited by a magistrates' court in England and Wales or Northern Ireland, into the Consolidated Fund, and

(ii) if forfeited by the sheriff, into the Scottish Consolidated Fund.

(2) Converted cryptoassets detained under paragraph 10Z7DE and forfeited under paragraph 10Z7DG, and any accrued interest on them, must be applied as follows—

(a) first, they must be applied in making any payment of reasonable expenses incurred by an authorised officer in connection with the detention of the converted cryptoassets under this Part;

(b) second, they must be paid—

(i) if forfeited by a magistrates' court in England and Wales or Northern Ireland, into the Consolidated Fund, and

(ii) if forfeited by the sheriff, into the Scottish Consolidated Fund.

(3) But converted cryptoassets are not to be applied or paid under sub-paragraph (1) or (2)—

(a) before the end of the period within which an appeal under paragraph 10Z7DH may be made, or

(b) if a person appeals under that paragraph, before the appeal is determined or otherwise disposed of.

Victims etc

10Z7DK (1) This paragraph applies where converted cryptoassets are detained under this Part.

(2) Where this paragraph applies, a person ("P") who claims that the relevant cryptoassets belonged to P immediately before—

(a) the relevant cryptoassets were seized, or

(b) the crypto wallet freezing order was made in relation to the crypto wallet in which the relevant cryptoassets were held,

may apply to the relevant court for some or all of the converted cryptoassets to be released to P.

(3) The application may be made in the course of proceedings under paragraph 10Z7DD, 10Z7DE or 10Z7DG or at any other time.

(4) The relevant court may, subject to sub-paragraph (9), order the converted cryptoassets to which the application relates to be released to the applicant if it appears to the relevant court that the condition in sub-paragraph (5) is met.

(5) The condition in this sub-paragraph is that—

(a) the applicant was deprived of the relevant cryptoassets, or of property which they represent, by criminal conduct,

(b) the relevant cryptoassets the applicant was deprived of were not, immediately before the applicant was deprived of them, property obtained by or in return for criminal conduct and nor did they then represent such property, and

(c) the relevant cryptoassets belonged to the applicant immediately before—

(i) the relevant cryptoassets were seized, or

(ii) the crypto wallet freezing order was made in relation to the crypto wallet in which the relevant cryptoassets were held.

(6) If sub-paragraph (7) applies, the relevant court may, subject to sub-paragraph (9), order the converted cryptoassets to which the application relates to be released to the applicant or to the person from whom the relevant cryptoassets were seized.

(7) This sub-paragraph applies where—

(a) the applicant is not the person from whom the relevant cryptoassets were seized,

(b) it appears to the relevant court that the relevant cryptoassets belonged to the applicant immediately before—

(i) the relevant cryptoassets were seized, or

(ii) the crypto wallet freezing order was made in relation to the crypto wallet in which the relevant cryptoassets were held,

(c) the relevant court is satisfied that the release condition is met in relation to the converted cryptoassets, and

(d) no objection to the making of an order under sub-paragraph (6) has been made by the person from whom the relevant cryptoassets were seized.

(8) The release condition is met—

(a) if the conditions in this Part for the detention of the converted cryptoassets are no longer met, or

(b) in relation to converted cryptoassets which are subject to an application for forfeiture under paragraph 10Z7DG, if the court or sheriff decides not to make an order under that paragraph in relation to the converted cryptoassets.

(9) If (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the converted cryptoassets are connected, the converted cryptoassets are not to be released under this paragraph (and so are to continue to be detained) until the proceedings are concluded.

(10) Where sub-paragraph (2)(b) applies, references in this paragraph to a person from whom relevant cryptoassets were seized include a reference to a person by or for whom the crypto wallet mentioned in that provision was administered immediately before the crypto wallet freezing order was made in relation to the crypto wallet.

(11) In this paragraph "the relevant cryptoassets" means—

(a) in relation to converted cryptoassets detained under paragraph 10Z7DD, some or all of the cryptoassets mentioned in sub-paragraph (1) of that paragraph, and

(b) in relation to converted cryptoassets detained under paragraph 10Z7DE, some or all of the cryptoassets mentioned in sub-paragraph (1) of that paragraph.

Compensation

10Z7DL (1) This paragraph applies if no order is made under paragraph 10Z7DG in respect of converted cryptoassets detained under this Part.

(2) Where this paragraph applies, the following may make an application to the relevant court for compensation—

(a) a person to whom the relevant cryptoassets belonged immediately before they were seized;

(b) a person from whom the relevant cryptoassets were seized;

(c) a person by or for whom the crypto wallet mentioned in paragraph 10Z7DE(1) was administered immediately before the crypto wallet freezing order was made in relation to the crypto wallet.

(3) If the relevant court is satisfied that—

(a) the applicant has suffered loss as a result of—

(i) the conversion of the relevant cryptoassets into money, or

(ii) the detention of the converted cryptoassets, and

(b) the circumstances are exceptional,

the relevant court may order compensation to be paid to the applicant.

(4) The amount of compensation to be paid is the amount the relevant court thinks reasonable, having regard to the loss suffered and any other relevant circumstances.

(5) If the relevant cryptoassets were seized, or the relevant crypto wallet freezing order was applied for, by an officer of Revenue and Customs, the compensation is to be paid by the Commissioners for His Majesty's Revenue and Customs.

(6) If the relevant cryptoassets were seized, or the relevant crypto wallet freezing order was applied for, by a constable, the compensation is to be paid as follows—

(a) in the case of a constable of a police force in England and Wales, it is to be paid out of the police fund from which the expenses of the police force are met;

(b) in the case of a constable of the Police Service of Scotland, it is to be paid by the Scottish Police Authority;

(c) in the case of a police officer within the meaning of the Police (Northern Ireland) Act 2000, it is to be paid out of money provided by the Chief Constable of the Police Service of Northern Ireland.

(7) If the relevant cryptoassets were seized, or the relevant crypto wallet freezing order was applied for, by a counter-terrorism financial investigator, the compensation is to be paid as follows—

(a) in the case of a counter-terrorism financial investigator who was—

(i) a member of the civilian staff of a police force (including the metropolitan police force), within the meaning of Part 1 of the Police Reform and Social Responsibility Act 2011, or

(ii) a member of staff of the City of London police force,

it is to be paid out of the police fund from which the expenses of the police force are met;

(b) in the case of a counter-terrorism financial investigator who was a member of staff of the Police Service of Northern Ireland, it is to be paid out of money provided by the Chief Constable of the Police Service of Northern Ireland.

(8) If the relevant cryptoassets were seized, or the relevant crypto wallet freezing order was applied for, by an immigration officer, the compensation is to be paid by the Secretary of State.

(9) This paragraph does not apply if the relevant court makes an order under paragraph 10Z7DK.

(10) In this paragraph—

"the relevant cryptoassets" means—

(a) in relation to converted cryptoassets detained under paragraph 10Z7DD, the cryptoassets mentioned in sub-paragraph (1) of that paragraph;

(b) in relation to converted cryptoassets detained under paragraph 10Z7DE, the cryptoassets mentioned in sub-paragraph (1) of that paragraph;

"the relevant crypto wallet freezing order", in relation to converted cryptoassets detained under paragraph 10Z7DE, means the crypto wallet freezing order mentioned in sub-paragraph (1) of that paragraph."

3 In Part 1, in paragraph 1(1) (terrorist cash), for "and 4B" substitute "to 4BD".

4 In Part 4B (forfeiture of terrorist money held in bank and building society accounts), after paragraph 10Z6 insert—

"Victims etc

10Z6A (1) A person who claims that money in respect of which an account freezing order has been made belongs to them may apply to the relevant court for the money to be released.

(2) The application may be made in the course of proceedings under paragraph 10S or 10Z2 or at any other time.

(3) The court may, subject to sub-paragraph (7), order the money to which the application relates to be released to the applicant if it appears to the court that—

(a) the applicant was deprived of the money to which the application relates, or of property which it represents, by criminal conduct,

(b) the money the applicant was deprived of was not, immediately before the applicant was deprived of it, property obtained by or in return for criminal conduct and nor did it then represent such property, and

(c) the money belongs to the applicant.

(4) If sub-paragraph (5) applies, the court may, subject to sub-paragraph (7), order the money to which the application relates to be released to the applicant.

(5) This sub-paragraph applies where—

(a) the applicant is not the person from whom the money to which the application relates was seized,

(b) it appears to the court that the money belongs to the applicant,

(c) the court is satisfied that the release condition is met in relation to the money, and

(d) no objection to the making of an order under sub-paragraph (4) has been made by the person from whom the money was seized.

(6) The release condition is met—

(a) in relation to money held in a frozen account, if the conditions for making an order under paragraph 10S in relation to the money are no longer met, or

(b) in relation to money held in a frozen account which is subject to an application for forfeiture under paragraph 10Z2, if the court or sheriff decides not to make an order under that paragraph in relation to the money.

(7) Money is not to be released under this paragraph—

(a) if an account forfeiture notice under paragraph 10W is given in respect of the money, until any proceedings in pursuance of the notice (including any proceedings on appeal) are concluded;

(b) if an application for its forfeiture under paragraph 10Z2, is made, until any proceedings in pursuance of the application (including any proceedings on appeal) are concluded;

(c) if (in the United Kingdom or elsewhere) proceedings are started against any person for an offence with which the cash is connected, until the proceedings are concluded.

(8) In relation to money held in an account that is subject to an account freezing order, references in this paragraph to a person from whom money was seized include a reference to a person by or for whom the account was operated immediately before the account freezing order was made."

5 In Part 6, in paragraph 19(1), at the appropriate places insert—

""cryptoasset" has the meaning given by paragraph 10Z7A(1);";

""crypto wallet" has the meaning given by paragraph 10Z7A(1);";

""justice of the peace", in relation to Northern Ireland, means lay magistrate;";

""terrorist cryptoasset" has the meaning given by paragraph 10Z7A(1);".

Part 2

Amendments to the Terrorism Act 2000

6 The Terrorism Act 2000 is amended as follows.

7 In Schedule 6 (financial information)—

(a) in paragraph 6(1) (meaning of financial institution)—

(i) omit the "and" after paragraph (ha), and

(ii) after paragraph (i) insert—

(b) after sub-paragraph (1AA) insert—

"(1AB) For the purposes of sub-paragraph (1)(j), "cryptoasset exchange provider" means a firm or sole practitioner who by way of business provides one or more of the following services, including where the firm or sole practitioner does so as creator or issuer of any of the cryptoassets involved—

(a) exchanging or arranging or making arrangements with a view to the exchange of, cryptoassets for money or money for cryptoassets,

(b) exchanging, or arranging or making arrangements with a view to the exchange of, one cryptoasset for another, or

(c) operating a machine which utilises automated processes to exchange cryptoassets for money or money for cryptoassets.

(1AC) For the purposes of sub-paragraph (1)(k), "custodian wallet provider" means a firm or sole practitioner who by way of business provides services to safeguard, or to safeguard and administer—

(a) cryptoassets on behalf of its customers, or

(b) private cryptographic keys on behalf of its customers in order to hold, store and transfer cryptoassets.

(1AD) For the purposes of sub-paragraphs (1AB) and (1AC), "cryptoasset" means a cryptographically secured digital representation of value or contractual rights that uses a form of distributed ledger technology and can be transferred, stored or traded electronically.

(1AE) For the purposes of sub-paragraph (1AB)—

(a) "cryptoasset" includes a right to, or interest in, the cryptoasset;

(b) "money" means—

(i) money in sterling,

(ii) money in any other currency, or

(iii) money in any other medium of exchange,

but does not include a cryptoasset.

(1AF) The Secretary of State may by regulations amend the definitions in sub-paragraphs (1AB) to (1AE)."

8 In section 123 (orders and regulations), after subsection (6ZE) insert—

"(6ZF) Regulations under paragraph 6(1AF) of Schedule 6 may not be made unless a draft of the instrument has been laid before and approved by a resolution of each House of Parliament."'—*(Tom Tugendhat.)*

Part 1 of this Schedule amends the Anti-terrorism, Crime and Security Act 2001 to make provision for a civil recovery regime in relation to terrorist cryptoassets. Part 2 of this Schedule amends the Terrorism Act 2000 to make provision about financial institutions and cryptoassets.

Brought up, read the First and Second time, and added to the Bill.

Bill, as amended, to be reported.

11.21 am

Committee rose.

Written evidence reported to the House

ECCTB 30 Dr Samantha Bourton

ECCTB 31 The Payments Association (further submission)

ECCTB 32 Michael Barron, Director, Michael Barron Consulting Limited, and Tim Law, Director, Engaged Consulting Limited (joint submission)